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IN THE

Supreme Court of the United States

October Term, 1985

HUBBARD BROADCASTING, INC.,
Petitioner,

vs.

SOUTHERN SATELLITE SYSTEMS, INC., and
TURNER BROADCASTING SYSTEM, INC.,
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE EIGHTH CIRCUIT

PETITION FOR WRIT OF CERTIORARI

*SIDNEY BARROWS
BYRON E. STARNS
M. PATRICIA SCHAFFER
Suite 1500
100 South Fifth Street
Minneapolis, Minnesota 55402
(612) 337-1500
Counsel for Petitioner

Of Counsel:
LEONARD, STREET AND DEINARD
Minneapolis, Minnesota
*Counsel of record

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EDITOR'S NOTE

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QUESTIONS PRESENTED FOR REVIEW

1. The 1976 Copyright Act made retransmissions of television broadcast signals infringement for the first time and Section 111 of the Act exempted only cable systems which meet the specific requirements of the compulsory licensing system, and carriers of those signals which are entirely passive. The question presented is whether this statute permits a local broadcaster, having neither copyright license nor statutory exemption, to collaborate with an active and knowing satellite carrier to exploit the economic benefits of distant cable markets through commercial substitution.

2. Was it error for the Court of Appeals to refuse to consider whether Turner Broadcasting System, Inc. ("Turner") was liable for copyright infringement independently of its codefendant Southern Satellite Systems, Inc. ("Southern"), for the sole reason that the question allegedly had not been raised below, when in fact the lower court had found, on the basis of plaintiff's arguments, all the elements of copyright infringement, and plaintiff had argued explicitly in its summary judgment memorandum, *inter alia*, that "Turner and Southern each are contributorily and jointly and severally liable" for the alleged infringement?

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OPINIONS BELOW

The opinion of the United States Court of Appeals for the Eighth Circuit, 777 F.2d 393 (8th Cir. 1985) is reproduced at A-34-59. The decision of the United States District Court for the District of Minnesota, 593 F.Supp. 808 (D. Minn. 1984) is reproduced at A-1-34. The order of the United States Court of Appeals for the Eighth Circuit denying the petition for a rehearing is reproduced at A-59.

JURISDICTION

The judgment of the Court of Appeals for the Eighth Circuit in this case was entered November 13, 1985, and a timely petition for rehearing was denied December 17, 1985. This case arises under the Copyright Act of 1976, 17 U.S.C. § 101 *et seq.* Federal jurisdiction is founded upon 28 U.S.C. § 1338(a). This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1) and 2101(c) to review the decision of the Court of Appeals.

STATUTORY PROVISIONS INVOLVED

The pertinent provisions of the Copyright Act of 1976, 17 U.S.C. § 101 *et seq.* are set forth at A-59-78.

STATEMENT OF THE CASE

Statutory Framework

In 1976 Congress passed a new Copyright Act. One of the most hard-fought issues of the new act was § 111, which governs the retransmission of television and radio signals by cable companies. Prior to the passage of the 1976 Act two Supreme Court cases had held that the retransmission of television signals by cable companies did not constitute a "performance" of the copyrighted works contained on the signal, and therefore the cable companies could not be held liable for copyright infringement. *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390 (1968), reh. den. 393 U.S. 902 (1968) and *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S. 394 (1974).

Congress disagreed. In the 1976 revision to the Copyright Act, it redefined "public performance" to include

such retransmissions, thus making cable companies subject to *prima facie* copyright liability. 17 U.S.C. § 101. Congress believed, however, that it would be impracticable and unduly costly to require the hundreds of small cable systems around the country to negotiate with the thousands of copyright owners for rights to the programs transmitted in the first instance by the local broadcasters whose signals were being retransmitted. H.R. Report No. 94-1476, 94th Cong. 2d Sess. (1976) (hereinafter "House Report") at 89, A-81; *Capital Cities Cable, Inc. v. Crisp*, 81 L.Ed.2d 580, 595 (1984). For this reason, Congress adopted a compromise which had been negotiated among the three main industries affected by the situation, the program suppliers (or syndicators), the local broadcasters, and the cable companies. Section 111 is the result.

Section 111 instituted a compulsory licensing system for cable companies. By its provisions, cable companies are exempt from liability for retransmitting television broadcast signals if they comply with the requirements of the compulsory license. Two of the main requirements are that they pay a compulsory license fee to the Copyright Royalty Tribunal for eventual distribution to copyright owners, and that they retransmit the signal exactly as it is originally broadcast by the television station. In particular, no commercials are to be deleted. Section 17 U.S.C. § 111 (c)(3). *Capital Cities Cable, Inc. v. Crisp, supra,* at 596.

Because the retransmission of television signals usually involves the intermediary of a common carrier, historically the telephone company, which provides the wires on which the signal travels, Congress added § 111(a)(3) to exempt carriers from liability if they were truly passive. In particular, the language of § 111(a)(3) specifically lim-

its the exemption to carriers which have "no direct or indirect control over the content or selection of the primary transmission. . . ."

No compulsory license nor exemption was created for the local broadcaster whose signal was retransmitted. In the system envisaged by Congress, the local broadcaster had no control over the retransmission of its signal. Once the primary transmission was broadcast over the air, it was technologically available for retransmission by third parties without the participation of the originating broadcaster. Nor did the local broadcaster exploit the economic benefits of the new market into which its signal was taken. It broadcast its signal only to the local area for which it was licensed by the Federal Communications Commission purchased local copyright licenses for its programming, and sold commercial time for this programming to a single set of advertisers. Under general copyright principles embodied in other sections of the Act, if the local broadcaster had no control over or profit from the extension of its signal into distant unlicensed markets, it could not be held liable for infringement. Neither compulsory license nor exemption under § 111 was necessary.

Hubbard Broadcasting, Inc.

Hubbard Broadcasting, Inc. ("Hubbard")[1] is a local broadcaster with television stations in Minneapolis/St. Paul, Minnesota; Tampa/St. Petersburg, Florida; and Albuquerque, New Mexico. Opinion, A-43. Hubbard purchases from syndicators exclusive local licenses to copy

[1]Supreme Court Rule 28.1 listing: Hubbard has no parent company, nonwholly-owned subsidiaries or affiliates. Hubbard has a number of wholly-owned subsidiaries, e.g., KSTP-TV, Inc.

righted works (such as old movies and television serials) for broadcasting in its market areas. A number of the works for which Hubbard has purchased exclusive local area licenses are also licensed to Turner for its local Atlanta market area. Opinion, A-43.

Turner Broadcasting System, Inc.

Turner is a local broadcaster, owner of television station WTBS which is licensed by the Federal Communications Commission to broadcast to Atlanta, Georgia. Opinion, A-39.

In 1975 Turner conceived the idea of arranging for the retransmission of its local Atlanta signal by satellite to cable systems throughout the country. Joint Appendix filed in the Court of Appeals (hereinafter "Jt. App.") 176-183. It established Southern for this purpose. *Id.* Turner sold Southern to the current owners for the sum of $1 when it learned that the FCC required the carrier to be separately owned. Jt. App. 263.

Shortly after the satellite transmission was in operation, Turner began arrangements for a direct link, by cable and microwave, between its studios and Southern's uplink facility.[3] Jt. App. 270-271.

The purpose of the direct link was to enable Turner to deliver a television signal to Southern for retransmission to cable systems which differed in commercial content

[3]In contrast to this, in the retransmission of broadcast signals, the over-the-air signal is normally picked up by an antenna at the carrier's "uplink" facility, converted into a microwave signal and beamed to a satellite transponder. The transponder sends the signal back to earth where it is picked up by receiving antennae, usually owned by cable systems, which deliver the signal by cable to subscribers for a fee. Because of its distance from the earth, a communications satellite transponder transmits a signal which can be received over a wide area—here the entire continental United States.

from that broadcast to the Atlanta audience. Opinion, A-40-41. This system is generally referred to herein as commercial substitution.

Thus, since 1979 Turner has consistently generated two signals from its WTBS studios, one "broadcast," or sent over the air by its normal UHF transmitter to television viewers in Atlanta, and another signal, directed spcifically to the cable market, delivered by wire and microwave link to Southern and only Southern. Opinion, A-42. The programming content of the two signals is identical. The commercial content is not. Opinion, A-40-41.

This commercial substitution system permits Turner to sell advertising for the copyrighted programs it broadcasts twice, once to the Atlanta market and again to advertisers wishing to reach the national cable market. At the time the record was made in this case, some 40% of the non-programming content of the microwave signal differed from that seen on the over-the-air signal. Opinion, A-40-41. Turner does not deny, however, that ultimately it hopes to be able to sell 100% of its commercial time twice. Alone in the broadcast industry, Turner exploits the economic potential of copyrighted programs in the national cable market, while purchasing licenses from program suppliers only for the Atlanta market. This activity is the basis of Hubbard's claim against Turner.

Southern Satellite Systems, Inc.

Southern is a resale common carrier licensed by the Federal Communications Commission to pick up Turner's signal and retransmit it to cable systems throughout the country in return for a fee from those systems. Opinion, A-39-40.

In addition, Southern is an active, knowing, and essential participant in Turner's commercial substitution. Southern participated in the planning which established the microwave link, knowing that Turner's intent was to make commercial substitution possible. Jt. App. 270-271. Southern asked for and received from Turner a commitment to indemnify it from any legal liability which might flow from its participation in the project. Jt. App. 277-278. Southern owns the microwave equipment which delivers the altered signal from Turner's transmitting tower to Southern's uplink facility. Opinion, A-42. Southern claims an independent benefit from the microwave link to the extent that the signal delivered by microwave is technically superior to the signal it receives off the air at its uplink facility. Opinion, A-40. There is a factual dispute as to the true motivation of Southern. Hubbard contends that the record supports the conclusion that Southern's participation was in fact motivated solely by its desire to assist its partner Turner in commercial substitution. In its application to the Federal Communications Commission for permission to establish the microwave link, Southern did not divulge the fact that the microwave signal would not be identical to the over-the-air signal it was licensed to retransmit. Jt. App. 170, 275-6, 468-9.

At the present time, Southern regularly receives two different signals at its uplink facility, Turner's local Atlanta signal received over the air, and Turner's altered microwave signal delivered directly and solely to Southern for retransmission to cable systems. Southern has programmed a machine known as the Lenco video presence detector always to select the microwave signal in preference to the over-the-air signal, unless the quality of the microwave signal falls below a certain level or disap-

pears entirely. Opinion, A-42. Should Turner fail to generate the microwave signal, Southern would automatically retransmit the over-the-air signal which remained.

Proceedings Below

In 1981 Hubbard brought an action for copyright infringement against Southern, charging it with having infringed Hubbard's exclusive copyright licenses in five separate copyrighted programs. The complaint was later amended to add Turner as a defendant, and to include counts for contributory and vicarious infringement and for conspiracy to infringe. Federal jurisdiction was based on 28 U.S.C. § 1338(a).

The District Court for the District of Minnesota, on cross-motions for summary judgment, granted defendants' motion for summary judgment and dismissed Hubbard's complaint for copyright infringement against both Turner and Southern.

On appeal, the Eighth Circuit Court of Appeals upheld the decision below, holding that neither Turner nor Southern was liable for copyright infringement.

The Court of Appeals concluded that "section 111 contains no provision under which Southern Satellite or Turner is liable for copyright infringement." A-58. It refused to rule on the question of whether Turner alone was "directly liable" for copyright infringement because it found that that question had not been raised below. A-58.

REASONS FOR GRANTING THE WRIT

In the Copyright Act of 1976 Congress strengthened the rights of copyright owners[3] of television programs against

[3]As the owner of exclusive rights in the television programs at issue in this case, Hubbard is a "copyright owner" under the Act, 17 U.S.C. § 101, and has standing to sue for infringement under § 17 U.S.C. § 501(b). District Court Opinion, A-3-4.

the exploitation of their works by cable companies in distant markets. Section 111 permits cable companies and their passive carriers to import copyrighted television programs from outside the local area of the station where they were originally broadcast only if the specific requirements of the compulsory licensing system are met. One of these requirements is that they shall not exploit the commercial value of those programs by substituting commercials.

The decision below has turned the intent of Congress on its head. It has permitted the local broadcaster whose signals are picked up to exploit the commercial value of the national cable market through the same commercial substitution that Congress explicitly forbade to cable companies and their carriers. The ruling below permits a local broadcaster to purchase local licenses for copyrighted programs, and exploit those programs twice, once in the local area for which it is licensed, and again in the national market to which it has no license. The ruling below cites no language in the Copyright Act which gives the local broadcaster this right.

The ruling below permits the satellite carrier to be a knowing and active participant in the substitution of commercials, despite the express statutory prohibition against direct or indirect control by the carrier over the content of the signal it carries. The ruling below permits the carrier to select between two different signals received from the same broadcaster, despite the express statutory prohibition against selection, and permits the carrier to avoid responsibility for that selection because the carrier programs a machine to do the selection for it. The basis for this ruling is that the carrier should be able to make use

of "available and affordable technology," without regard to the effect of that technology on economic and legal relationships.

The ruling below conflicts in principle with the other two circuit court decisions interpreting § 111; it conflicts with established Supreme Court and common law precedent on contributory infringement; it overturns a considered and hardfought compromise by Congress in a key section of the Copyright Act; and it will have consequences far beyond the parties to this case.

Finally, because of the Court of Appeals' failure to rule on the issue of "direct" infringement, the ruling below not only deprives the parties to this case of a final decision on an issue that was consistently raised below, but it introduces an element of uncertainty into the entire cable industry, to the detriment not only of the industry but of the court system which will likely be burdened with another expensive and time consuming case raising the same issue.

I.

THE DECISION OF THE COURT OF APPEALS FOR THE EIGHTH CIRCUIT CONFLICTS WITH THE PRINCIPLES ARTICULATED BY THE OTHER TWO CIRCUITS WHICH HAVE INTERPRETED SECTION 111

Two other Courts of Appeals, for the Second and the Seventh Circuits, have considered section 111 of the Copyright Act, and in particular, the carrier exemption of § 111(a)(3). *Eastern Microwave, Inc. v. Doubleday Sports, Inc.*, 691 F.2d 125 (2d Cir. 1982), cert. den. 459 U.S. 1226 (1983) ("EMI") and *WGN Continental Broadcast-*

ing Company v. United Video, Inc., 693 F.2d 622 (7th Cir. 1982) ("WGN"). All three decisions have concerned the application of § 111 to satellite carriers which retransmit television signals to cable companies on a nation-wide basis. Because each case involved a slightly different fact situation, the holdings of these cases are not directly in conflict. The reasoning of the Second and Seventh Circuits in reaching their decisions, however, is directly contrary to the holding of the Eighth Circuit.

In the *WGN* case Judge Posner held that a satellite resale carrier which stripped certain copyrighted material carried in the vertical blanking interval of a television signal was not a "passive carrier" qualifying for the exemption of § 111(a)(3).

> ". . . United Video cannot avail itself of the passive carrier exemption, because it was not passive—it did not retransmit WGN's signal intact."

693 F.2d at 625.

According to the *WGN* opinion, the carrier must be passive to qualify for the § 111(a)(3) exemption.

> "The exemption thus allows carriers such as United Video to act as purely passive intermediaries between broadcasters and the cable systems that carry the broadcast signals into the home, without incurring any copyright liability. ... The intermediate carrier pays the copyright owner nothing, provided it really is passive in relation to what it transmits, like a telephone company. See S. Rep. No. 473, 94th Cong. 1st Sess. 78 (1975). It may not even delete commercials. ..."

693 F.2d at 624.

In *EMI* the Second Circuit was asked to determine whether § 111(a)(3) was meant to apply to satellite car-

riers, which by their nature retransmit only one television signal and thus engage in at least an initial selection of which signal to transmit. Judge Markey, writing for the Second Circuit, also emphasized that the carrier must be passive. "[T]echnical restrictions which forced EMI to make an initial one-time determination to retransmit the signals of a particular station, . . ." do not constitute the type of "selection" forbidden by § 111(a)(3), as long as the carrier delivers the signal which is demanded by the cable systems.

> "In meeting that demand ... *EMI* does so passively, retransmitting exactly what it receives and the entirety of what it receives. ... To do otherwise could be perceived as the carrier's making the transmission its own."

691 F.2d at 130.

The Eighth Circuit has essentially rejected the passivity requirement that both the Second and the Seventh Circuits have found to be essential for carriers to qualify for the § 111(a)(3) exemption. The ruling below permits a carrier actively and knowingly to collaborate with a local broadcaster in substituting commercials. It permits a carrier to make a continuous, rather than one-time, selection between two differing signals from one broadcast station, although such selection is neither technologically required, nor demanded by its cable customers.

A satellite carrier by its nature beams television signals into all of the continental United States. Whether a copyright owner could prevail in an infringement action against a non-passive carrier such as Southern may now depend on the circuit in which the copyright owner brings its suit. This Court should resolve this difference between the circuits to eliminate the uncertainty for an entire industry.

II.

THE RULING OF THE COURT OF APPEALS WILL CHANGE THE CONDUCT OF AN ENTIRE INDUSTRY, TO THE LOSS OF COPYRIGHT OWNERS

At the present time there are at least three satellite carriers which retransmit the television signals of local broadcasters, including the carriers who were parties to the *WGN* and *EMI* cases. Of these only Southern has agreed to facilitate the substitution of commercials by the local broadcaster. Only Turner, of all the local broadcasters whose signals are being retransmitted, has chosen to create a dual signal, microwave delivery system, and to substitute commercials, thereby exploiting its licensed programs beyond the market to which it is licensed.

The Eighth Circuit has now given carte blanche to this unique system. If this decision is allowed to stand, it is highly likely that these other carriers and local broadcasters will engage in the same process. The legal right to exploit the national market for copyrighted works will be handed over to any local broadcaster which can arrange for a satellite pick-up of its signal, despite the fact that it purchases only local licenses from the copyright owners. Because the copyright owners will be deprived of their legal right to prevent this infringement. their bargaining power will be diminished. and the market value of their creative efforts will be appropriated in part by the local broadcasters, without any statutory authority from Congress.[4]

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[4]The Eighth Circuit sidestepped this problem by making a finding of fact—that commercial substitution has no adverse impact on copyright holders. A-57-58. Besides ignoring the distorting effect that the refusal to enforce the copyright monopoly will have on the market. this factual finding was not addressed by the district court and is unsupported by the record.

The legal and economic ramifications of this ruling go far beyond the parties to this suit, and involve a restructuring of an entire industry. It is difficult to estimate the amount of money which will be affected by this ruling, because it will involve the value of copyrighted television programming nationwide for the foreseeable future. This is an important issue on which the guidance of the Supreme Court is needed.

III.

THE RULING BELOW CONFLICTS WITH SUPREME COURT TEACHING ON CONTRIBUTORY INFRINGEMENT AND THE ROLE OF TECHNOLOGY

The Supreme Court, in *Sony Corporation of America v. Universal Studios, Inc.*, 464 U.S. 417 (1984) recently restated the established principles of contributory infringement. Citing the so-called "dance hall cases,"[5] the court stated:

> "In such cases, as in other situations in which the imposition of vicarious liability is manifestly just, the "contributory" infringer was in a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright owner."

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[5] *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Ass., Inc.*, 554 F.2d 1213 (1st Cir. 1977) (racetrack retained infringer to supply music to paying customers); *KECA MUSIC, Inc. v. Dingus McGee's Co.*, 432 F. Supp. 72 (WD Mo. 1977) (cocktail lounge hired musicians to supply music to paying customers); *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (7th Cir. 1929) (dance hall hired orchestra to supply music to paying customers), *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304 (2nd Cir. 1963); *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159 (2nd Cir. 1971); *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F. Supp. 399 (SDNY 1966).

464 U.S. at 437.

Southern, through its collaboration in delivering the altered signal, is in a position to control Turner's unauthorized performance of copyrighted works and is providing the means whereby these works are being performed. Nevertheless, the Eighth Circuit absolved Southern of all liability, because it found, as a matter of fact, that Southern had a legitimate business purpose for establishing the microwave link,—to improve the quality of the picture it retransmits.[6] A-52 and A-54. In short, an entity may knowingly assist in the transmission of infringing works if its motive is to ensure the infringing works can be more clearly seen on arrival.

The Eighth Circuit comes to this conclusion, not in the explicit context of the doctrine of contributory infringement, but through the statutory embodiment of that doctrine in § 111(a)(3), which, *inter alia,* specifically forbids a carrier from exercising "direct or indirect control over the content . . . of the primary transmission". This statutory language, with its emphasis on control, is simply a restatement of the principle of contributory infringement cited above.[7]

Nothing in the language of § 111(a)(3) or in the case law concerning contributory infringement supports the Eighth Circuit's judicially created exemption for participants in copyright infringement which have a "legitimate

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[6]The motivation of Southern for collaborating in the commercial substitution scheme is a matter of dispute between the parties and was not addressed by the district court.

[7]The Registrar of Copyright, discussing an early version of § 111(a)(3), expressed the opinion that an exemption for purely intermediate carriers was not necessary, because by already established principles they would be excluded from liability. Supplementary Report of the Registrar of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill (Comm. Print, pt. 6 (1965)) at 25, A-85-86.

business interest" in facilitating the infringement. In fact, under normal analysis, Southern's "legitimate business interest" would be understood as the profit Southern reaps from its participation in the infringing enterprise. Turner does not pay Southern directly for its participation in the microwave link, but neither is Southern's participation eleemosynary. Southern profits through the improved picture quality it can sell to its customers. But as long ago as *Herbert v. Shanley Co.*, 242 U.S. 591 (1917), Justice Holmes recognized that such indirect benefits, such as those a restaurant keeper receives from providing orchestra music on its premises, are profits arising from the infringing performance. The Eighth Circuit has now turned this doctrine upside down and held that the substantial benefits that Turner's collaborator receives from the enterprise is a "legitimate business interest" which, instead of tying it more closely to the infringement, actually exempts it from liability.

This Court in *Sony* held that the sale of a particular technology will not be enjoined despite the fact that it can be used for copyright infringement, if that technology "is capable of substantial non-infringing uses." 464 U.S. at 442. The Eighth Circuit has gone beyond this principle, and held that a particular technology may be actually used for the purposes of infringement as long as the user can point to a legitimate business interest arising from the infringement.

Unlike the *Sony* plaintiffs, Hubbard is not seeking to enjoin the sale of microwave equipment, only its use in the facilitation of infringement. Unlike the defendants in *Sony*, Southern is an active, ongoing, and knowledgeable participant in the infringing activity. Like the equipment

in *Sony*, the microwave link is capable of being used for legitimate, non-infringing purposes, but unlike *Sony*, an injunction in this case would not, as the Eighth Circuit mistakenly believed, require "Southern . . . [to] purposely forgo available and affordable technology. . . ."[8] Unlike the defendants in *Sony*, Southern does exercise direct and immediate control over how the microwave link is used. This closely coordinated effort between a carrier and the primary transmitter to affect the content of the primary transmission certainly constitutes the indirect exercise of control over the content of that signal.

The issue here is not whether Southern should be able to employ beneficial and affordable technology, but whether it may assist in employing that technology for wrongful ends. As Justice Holmes stated in *Kalem Company v. Harper Brothers*, 222 U.S. 55, 62 (1911):

> "The essence of the matter ... is not the mechanism employed, but that we see the event or story lived. ... The most innocent objects, ... may be used for unlawful purposes."

In permitting this activity by Southern, the Eighth Circuit has seriously altered the scope of this Court's opinion in *Sony* and deviated from what up to now has been an unbroken line of authority defining the conditions under which it is just to hold a participant in an enterprise liable for the wrongs of that enterprise, irrespective of the technological "mirrors" employed.

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[8]Southern could use the microwave link to transmit the over-the-air signal rather than the altered signal and thereby receive all the benefits in terms of picture quality that the microwave link now affords, without participating in any infringing activity. Instead, however, Southern knowingly employs this technology to assist Turner in changing the content of the cable signal.

IV.

NOTHING IN THE LANGUAGE OR LEGISLATIVE HISTORY OF THE COPYRIGHT ACT JUSTIFIES THE RULING BELOW

The use of a direct link between the primary transmitter and the carrier for the purpose of commercial substitution was not specifically contemplated by Congress when it enacted the Copyright Act of 1976. When § 111 is read as a whole, however, and in the context of the substantial legislative history that accompanies that section, it is clear that the retransmission of a non-broadcast signal intended for the cable market lies entirely outside the compulsory licensing system.

Congress intended the compulsory licensing system to apply only to television signals broadcast over the air to the general public in the primary transmitter's local area. The language of the statute bears this out. *See e.g.*, Section 111(c)—compulsory licensing shall apply to the ". . . primary transmission made by a *broadcast* station licensed by the Federal Communications Commission . . ." (emphasis added); § 111(b)—no carrier exemption or compulsory license ". . . if the primary transmission is not made for reception by the public at large, but is controlled and limited to reception by particular members of the public ...". The legislative history of § 111 similarly demonstrates that Congress was aware of the important distinction between over-the-air broadcast signals and non-broadcast signals destined for the cable market. *See, e.g.*, House Report at 93, A-83.

> The compulsory license applies, therefore, to the carriage of *over-the-air broadcast* signals and is inap-

> plicable to the secondary transmission of any non-broadcast primary transmission such as a program originated by a cable system or a cable network. The latter would be subject to full copyright liability under other sections of the legislation.

(emphasis added).*

The rulings below are in agreement on the technological fact that the signal transmitted by Turner to Southern for retransmission to cable systems is not broadcast over the air, but is delivered directly and solely to Southern for retransmission to the cable market. There is also agreement that the content of the over-the-air broadcast signal differs from that of the microwave signal. There is also agreement that commercial substitution is only technologically possible because the microwave signal is not broadcast over the air. Nevertheless, the Eighth Circuit, and the District Court ruled that the method of delivery of a signal was irrelevant to the Copyright Act. The rulings below ignore the language of the statute, the legislative history, and the plain fact that the "method of delivery" in this case is more than a technological improvement, but constitutes the means by which the defendants are able to commercially exploit distant markets, a right which Congress carefully limited to the explicit parameters of the compulsory license.

In addition, the rulings below construe the explicit language of section 111(a)(3) effectively to read a word out of the statute. Section 111(a)(3) exempts a carrier from

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*C.f. *Capital Cities Cable, Inc. v. Crisp, supra,* 81 L.Ed.2d at 593-4 and 596 for an explanation of the distinction between broadcast signals covered by compulsory license, and non-broadcast cable services which may be either subscription or advertiser-supported.

copyright liability only if it, *inter alia*, "has no direct or indirect control over the content or selection of the primary transmission. . . ." Southern consistently has available to it from its own receiving equipment two differing signals generated by Turner. It consistently selects between them one signal to retransmit. The Court below held that this "selection" was not "selection" because Southern programmed a machine to make the selection for it, and because Turner, as well as the carrier, has power over which signal is retransmitted.[19] A-54. The Court's decision flies in the face of this Court's admonition in *Mills Music, Inc. v. Snyder*, 83 L.Ed.2d 556, 566 (1985) that

> "[i]n construing a federal statute it is appropriate to assume that the ordinary meaning of the language that Congress employed 'accurately expresses the legislative purpose.' "

Finally, the rulings below ignore the legislative history of § 111 which make clear that the section was meant to protect the interests of local broadcasters in the distant markets from commercial substitution.

> "On a "distant" signal, the placement of substitute advertising harms the local broadcaster in the distant market because the cable system is then competing for local advertising dollars without having comparable program costs."

House Report at 93-94, A-84. It is irrelevant to the local broadcaster whether the commercial substitution is

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[19]If Turner chooses to generate only one signal, which it does on rare occasions, Southern obviously must retransmit the only one left. If Southern had a person, rather than a machine, select between the two signals, the "selection" would be obvious. There is no logical difference in this case between instructing an employee and programming a machine.

done by the cable company itself or by the entity which supplies the cable company. In both instances, the local broadcaster is forced to compete for advertising dollars with an entity which does not pay to transmit the program into the local broadcaster's market. The Eighth Circuit distinguished this legislative intent by making a factual finding—that Turner does not compete with Hubbard for local advertising dollars. A-57. There is nothing in the record or in the district court opinion which supports or even addresses this factual issue, which is a matter of dispute between the parties.

This Court has consistently emphasized that Congress, rather than the courts, is in the best position to "accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology." *Sony*, at 431. Here, Congress has already accommodated the competing interests implicated in cable technology. Congress has already made clear in § 111 that the local broadcaster is to be protected against commercial substitution in the cable retransmission process. The use of a microwave system to permit commercial substitution by the primary transmitter is not so innovative a technique that the courts should close their eyes to the plain fact that it is being used to accomplish the very harm Congress meant to prevent. The Eighth Circuit's ruling effectively destroys the balance of interests that Congress laboured for so long to achieve.

By taking a myopic and erroneous interpretation of § 111 and the Copyright Act as a whole, the Court of Appeals for the Eighth Circuit has sanctioned a commercial substitution scheme which subverts the purpose of the Copyright Act to reserve to authors the economic fruits

of their creativity, distorts a careful compromise established by Congress between the interests of program suppliers, cable systems, and local broadcasters, permits through indirection the commercial substitution that Congress explicitly forbade be done directly, and elevates technology to a unique position in the law where its benefits are protected without regard to its costs.

V.

THE COURT BELOW ERRED IN HOLDING THAT TURNER'S DIRECT INFRINGEMENT WAS NOT RAISED BELOW SOLELY BECAUSE PLAINTIFF CHARACTERIZED TURNER AS A "CONTRIBUTORY" RATHER THAN "DIRECT" INFRINGER

In its motion for summary judgment and in its supporting briefs Hubbard moved for judgment of infringement against both Southern and Turner, as jointly and severally liable for the public performance of copyrighted works for profit beyond the area for which either had a license or an exemption. Because both parties were technologically necessary to the delivery of the infringing signal, Hubbard characterized them as contributory infringers. The opinion of the District Court found, as Hubbard had argued, that all of the elements of infringement were present, but held, contrary to Hubbard's argument, that Southern qualified for an exemption from liability under § 111.

On appeal, Hubbard pointed out that the implication of the lower court's findings was that Turner was liable for infringement irrespective of Southern's exemption. The Eighth Circuit refused to rule on that question, on the theory that it had not been raised below. A-58. In fact,

however, both the factual elements necessary to establish infringement by Turner and the legal analysis establishing its *prima facie* liability were before the trial court."

Hubbard's memoranda in support of its summary judgment motion clearly raised the theory of Turner's independent liability. Pertinent excerpts from these memoranda", some of which were contained in the Supplementary Appendix, pp. 1-12 below, are reproduced at A-87-92.

This Court, in *Sony*, pointed out that:

> "the lines between direct infringement, contributory infringement and vicarious liability are not clearly drawn. ... The lack of clarity in this area may, in part, be attributable to the fact that an infringer is not merely one who uses a work without authorization by the copyright owner, but also one who authorizes the use of a copyrighted work without actual authority from the copyright owner."

454 U.S. at 435, n.17. In the same decision, the Court pointed out that despite the fact that the question of petitioners' liability under the "doctrines" of "direct infringe-

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"The authority cited by the Eighth Circuit, *Kriegesmann v. Barry-Wehmiller Co.*, 739 F.2d 357 (8th Cir. 1984) is thus inapposite. In *Kriegesmann* the appellant had argued an entirely new legal theory based on new facts, none of which had been raised below. Here both the legal theory and the factual underpinning were presented to the trial court.

"*E.g.*, Hubbard argued to the trial court that:

(1) "As an active and willful participant in the "WTBS Satellite Cable Network" Turner must bear its share of responsibility for the consequences of the network's public performance of copyrighted works." A-90.

(2) "Turner and Southern are Each Liable for Copyright Infringement." A-90.

(3) "Turner and Southern are Each Contributorily and Jointly and Severally Liable." *Id.*

(4) "[I]t is not necessary to attach specific labels to each participant;" and "Turner and Southern's activities are so closely tied that they are jointly responsible for copyright infringement, whatever label is used." A-95.

ment'" and "vicarious liability" were not nominally before the Court, analysis of the contributory infringement claim necessarily entailed consideration of arguments which might also be forwarded under other labels. *Id.* The issue of Turner's liability for its part in the collaborative effort to exploit copyrighted works in unlicensed markets could equally well be labelled either "direct" or "contributory" infringement, as well as "vicarious liability". The same arguments are equally applicable.

In fact, long-standing precedent in the Supreme Court indicates that the liability of a collaborator in the position of Turner should be considered under the label of "contributory" infringement. *Kalem Co. v. Harper Brothers*, 222 U.S. 20 (1911). In *Kalem* the "contributory infringer" was the one who prepared the film version of Ben Hur and provided it to the jobbers who in fact performed the work. Similarly here, Turner prepared the altered signal for the purpose of exploiting the works in cable markets and sent it to Southern for performance in those markets. Both the defendant in *Kalem* and Turner advertised the works for use in unauthorized markets. Jt. Ap. 274. Justice Holmes wrote:

> The defendant not only expected but invoked by advertisement the use of its films for dramatic reproduction of the story. That was the most conspicuous purpose for which they could be used, and the one for which especially they were made. If the defendant did not contribute to the infringement it is impossible to do so except by taking part in the final act. It is liable on principles recognized in every part of the law."

222 U.S. at 62-63.

Similarly in *Sony*, this Court stated with regard to contributory infringement,

> "We recognize there are substantial differences between the patent and copyright laws. But in both areas the contributory infringement doctrine is grounded on the recognition that adequate protection of a monopoly may require the courts to look beyond actual duplication of a device or publication to the products or activities that make such duplication possible."

464 U.S. at 442.

Hubbard has consistently argued that Turner's role in providing an altered signal makes Southern's public performance possible. By the reasoning of both *Kalem* and *Sony*, therefore, Turner's activities can properly be designated as "contributing" to the infringement. Hubbard's claim against Turner for 'contributory infringement' should have been ruled upon by the lower courts, irrespective of whether a claim of 'direct infringement' was or was not advanced.

Furthermore, the *Kalem* case shows that the contributory infringer's liability does not turn on whether or not the "direct infringers" are found guilty of infringement. In fact, the "direct infringers" were not even parties to the *Kalem* case. Irrespective of whether Southern enjoys an exemption, therefore, Turner can be liable for its part in the enterprise as a "contributory infringer." Despite this, the Eighth Circuit refused to rule on Turner's liability, because the term "contributory" rather than "direct" was used.

It is true that the district court opinion did not address

the logical consequence of its own finding that Turner was liable for prima facie infringement while its partner alone was exempt.[13] The Eighth Circuit could properly have conducted its own independent review of the trial court's legal analysis,[14] or remanded the case to the district court for a finding on that issue, but it was error to rule that it was never raised below.

By avoiding the issue in this way, the courts below have penalized not only Hubbard, but the entire industry. On one hand, the Eighth Circuit opinion appears to give carte blanche to all local broadcasters to engage in commercial substitution similar to Turner's. On the other hand, its refusal to rule on the "direct liability" issue results in an uncertainty which affects the entire industry. In the interests of judicial economy this issue, which has been argued before two courts, and fully briefed by both parties at all stages, should be ruled upon.

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[13]The trial court failed to grasp the point made clear by Justice Blackmun's dissent in *Sony, supra,* that "the fact that a given market for a copyrighted work would not be available to the copyright holder were it not for the infringer's activities does not permit the infringer to exploit that market without compensating the copyright holder. *See Iowa State University Research Foundation, Inc. v. American Broadcasting Cos., Inc.*, 621 F.2d 57 (CA 2 1980)." 464 U.S. at 485, 78 L.Ed.2d at 618. Here, the fact that neither the copyright owner nor Hubbard could prevent the work from being shown on cable systems in Hubbard's markets because of the compulsory license does not entitle Turner to exploit that market. Thus, exemptions for Southern and its cable system customers do not constitute a franchise for Turner to reap economic benefits properly belonging to the copyright owner and its affected licensees.

[14]*Fritiofson v. Alexander*, 772 F.2d 1225, 1239 (5th Cir. 1985); *Koshatka v. Philadelphia Newspapers, Inc.*, 762 F.2d 329, 333 (3rd Cir. 1985); *Liberty Lobby, Inc. v. Anderson*, 746 F.2d 1563, 1571-2 (D.C. Cir. 1984); *Lojek v. Thomas*, 716 F.2d 675, 677(9th Cir. 1983); *Daitom, Inc. v. Pennwalt Corp.*, 741 F.2d 1569, 1574 (10th Cir. 1984).

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari to the Court of Appeals for the Eighth Circuit should be granted.

Respectfully submitted,

Sidney Barrows
Byron E. Starns
M. Patricia Schaffer
Suite 1500
100 South Fifth Street
Minneapolis, Minnesota 55402
Telephone: (612) 337-1500
Attorneys for Petitioner

Of Counsel:
Leonard, Street and Deinard

APPENDIX

APPENDIX

HUBBARD BROADCASTING, INC., Plaintiff,

v.

SOUTHERN SATELLITE SYSTEMS, INC. and Turner Broadcasting System, Inc., Defendants.

No. 3-81 Civ. 330.

United States District Court, D. Minnesota, Third Division.

Aug. 23, 1984.

* * *

Leonard, Street & Deinard by Sidney Barrows, Byron Starns, and Patricia Schaffer, Minneapolis, Minn., for plaintiff.

Faegre & Benson by Duane Krohnke, Minneapolis, Minn., Pepper & Corazzini by Robert Corazzine, Washington, D.C., and Jerry Reed, Tulsa, Okl., for defendant Southern Satellite Systems, Inc.

Popham, Haik, Schnobrich, Kaufman & Doty, Ltd. by Thomas K. Berg, Minneapolis, Minn., Troutman, Sanders, Lockerman & Ashmore by Tench C. Coxe and Hugh M. Davenport, Atlanta, Ga., for defendant Turner Broadcasting System, Inc.,

MEMORANDUM ORDER

ALSOP, District Judge.

This matter comes before the court upon cross-motions for summary judgment. All parties agree that there are no genuine issues of material fact in dispute and that the question whether or not defendants are liable to plaintiff for copyright infringement is purely a question of law. The parties have submitted a joint stipulation of facts I and II, joint exhibits, volumes of separate exhibits, affidavits, a compendium of legal authorities, individual statements of facts and a number of briefs. The issues have been well presented by able counsel on all sides.

I. *Standing*

[1] Plaintiff claims standing under 17 U.S.C. § 501 (b), which provides that "the legal or beneficial owner of an exclusive right under a copyright is entitled ... to institute an action for any infringement of that particular right committed while he or she is the owner if it." Hubbard claims it has standing if (1) it is the owner of an exclusive right and (2) Turner & Southern infringed the particular right that Hubbard owns. Hubbard says the first requirement is met because all of the licenses for the five works in issue contain two provisions, a granting provision and an exclusivity provision, which together convey to Hubbard the exclusive right to transmit the works to television (TV) viewers in Hubbard's broadcast areas. "Plaintiff's Reply Memo" at 3-10. Hubbard claims the second requirement is met because Hubbard's exclusive right to exhibit the works to the television viewing audience in particular territories is the precise right allegedly infringed by Turner/

Southern's cable transmissions of the works within Hubbard's exclusive zone. *Id.* at 11-16.

Defendants contend plaintiff lacks standing because, first, it is not the owner of any exclusive rights. Defendants claim the licenses do not affirmatively grant Hubbard a portion of the owner's exclusive rights, but instead merely contain promises by the owners that they will not license certain conduct by other entities. Those promises may give Hubbard a breach of contract claim, but do not constitute the transfer of part of the copyright owners' exclusive rights. "Defendants' Joint Memo" at 61-63. Furthermore, any exclusivity rights stemming from Hubbard's form exclusivity rider were directly dependent upon the FCC's syndicated program exclusively rules. Once the FCC repealed those rules, after execution of these license agreements, Hubbard's exclusivity rights terminated. Second, defendants say, their activities have not interfered with Hubbard's copyright interests because the transmissions were not broadcast to TV viewers but occurred on a nationwide basis to cable TV systems. *Id.* at 63.

The court finds that plaintiff is the owner of exclusive rights in the five works and that plaintiff alleges that defendants' acts infringed the particular rights plaintiff owns. The court finds it is not necessary to repeat the parties' analysis except to note that it agrees that the granting and exclusivity provisions construed together give plaintiff exclusive rights to the works in particular geographic areas and that while repeal of the FCC syndicated programming exclusivity rules may have removed one basis of exclusivity, passage of the Copyright Act of 1976, 17 U.S.C. §§ 101 *et seq.*, gave plaintiff another basis. Contrary to defendants' assertions, it seems very clear the the acts com-

plained of allegedly infringed the particular rights plaintiff owns—plaintiff claims the exclusive right to televise particular works in particular geographic areas and defendants allegedly showed the same works in the same areas. The court basically agrees with plaintiff's assessment of its 501(b) standing found in its reply brief, at 1-16.

The plaintiff also claims standing under 17 U.S.C. § 501(c) and defendants challenge that standing as well. Plaintiff concedes, however, that § 501(c) standing is superfluous because it already has § 501(b) standing. The court agrees that it is unnecessary to decide the scope of § 501(c) standing since the court has found plaintiff has standing under § 501(b).

II. *Prima Facie Copyright Liability*

[2] Plaintiff must establish five elements to make a prima facie showing of copyright infringement. Those elements are:

1. The originality and authorship of the compositions involved;

2. Compliance with all formalities required to secure a copyright under 17 U.S.C. § 101 *et seq.;*

3. That plaintiff is the proprietor of the copyrights of the compositions involved;

4. That the compositions were publicly performed for profit; and

5. That the defendants have not received permission from plaintiff or its representatives for such performance.

George Simon, Inc. v. Spatz, 492 F.Supp. 836, 838 (W.D. Wisc. 1980). The first three elements are not in dispute

and are covered by Joint Stipulation II of the parties. In response to the fifth element, defendants in effect say that they do not need plaintiff's permission because of various exemptions and licensing systems established by 17 U.S.C. § 111. Those sections will be discussed in parts IIIC and IIID, *infra*. In response to the fourth element, defendants say that the works were not publicly performed. Plaintiff contends that the works were publicly performed by both Turner and Southern.

[3] Section 101 of the Copyright Act says:

> To perform or display a work "publicly" means—
>
> > to transmit or otherwise communicate a performance or display of the work ... to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

To "perform" a work "means ... in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible." *Id.* To "transmit" a performance or display is "to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent." *Id.* Plaintiff claims that Congress intended these definitions to be construed broadly and points to House Report 63, U.S.Code Cong. & Admin. News 1976, pp. 5659, 5676 which says, "The concepts of public performance and public display cover not only the initial rendition or showing, but also any further act by which that rendition or showing is transmitted or communicated

to the public." Congress intended to cover all transmission activity in its broad definition of transmit. The House Report explains that "any device or process" is "broad enough to include all conceivable forms and combinations of wired or wireless communications media, including but by no means limited to radio and television broadcasting as we know them." *Id.* at 64, U.S.Code Cong. & Admin.News 1976, p. 5678. That report also states that:

> Each and every method by which images or sounds comprising a performance or display are picked up and conveyed is a "transmission," and if the transmission reaches the public in any form, the case comes with the scope of clauses (4) or (5) of Section 106.

Id. at 64, U.S.Code Cong. & Admin.News 1976, p. 5678. [Section 106 defines exclusive rights and says the copyright owner has the exclusive right to do and to authorize, among other things, public performance of the work (clause 4) and public display of the work (clause 5).]

It is thus clear, plaintiff says, that the Act was intended to cover indirect as well as direct transmissions to the public. Even a performance to a selected group is still a public performance, plaintiff says, citing authority at "Plaintiff's Memo" at 11-12. Turner originates performance of the works and Southern's retransmission is independently a public performance. Plaintiff notes that § 111(a), which exempts certain retransmission activity from copyright liability, would be unnecessary if retransmission activity were not a public performance.

Plaintiff relies on *WGN Continental Broadcasting Co. v. United Video, Inc.*, 693 F.2d 622, 625 (7th Cir. 1982). WGN, like Turner's station WTBS, is a "superstation,"

i.e., its programs are carried outside its local broadcast area by cable TV systems. Its signals were transmitted by an intermediate carrier, United Video, to the cable systems. The court noted that United Video could not be immune from copyright liability just because it did not retransmit WGN's signal directly to the public, that is to the cable subscriber, but instead transmitted the signal to the cable systems who retransmitted it to their subscribers. The court said:

> The passive carrier exemption [§ 111(a)(3)] would be superfluous if intermediate carriers such as United Video could never be infringers anyway because they did not transmit directly to the public. And the scheme in section 111 [§ 111(c)] for compensating copyright owners would be disrupted....United Video could mutilate to its heart's content the broadcast signal it picked up and the copyright owner would have no recourse against it. His only recourse would be against the cable systems ... that were retransmitting the multilated signals: a thousand or more copyright infringement suits instead of one.
>
> ... [*T*]*he Copyright Act defines "perform or display ... publicly" broadly enough to encompass indirect transmission* to the ultimate public ....

Id. at 625 (emphasis added). Thus, plaintiff says, both Turner and Southern publicly performed the works. Since there is no doubt the activities were engaged in for profit, plaintiff claims it has established the fourth element of its prima facie case.

Defendants contend that the works were not publicly

performed because Southern's transmissions were not "to the public." "Defendants Joint Memo, Appendix B" at 2. Defendants argue that the cable subscribers, not the cable systems, constitute the public. In support they cite legislative history that predates the 1976 Copyright Act and cite the district court opinion in *WGN*. They concede that opinion was reversed by the circuit court, but disagree with the circuit court's reasoning. "Joint Memo, Appendix B" at 3-11.

The court has considered defendants' arguments and finds them unpersuasive. The legislative history, as plaintiff notes, must be addressed to the enacted definition and exemption, not to one of the many varying versions that were discussed during the eleven years it took Congress to pass the 1976 Copyright Act. *See* "Plaintiff's Reply Memo" at 26 and 27. Similarly, defendants' reliance on the overruled *WGN* district court opinion is misplaced. This court agrees with the Seventh Circuit's analysis that a construction of public performance as including only direct performances to the public and excluding indirect transmissions would render the passive carrier exemption of § 111(a)(3) superfluous and would wreak havoc with the compulsory licensing system of § 111(c). *See* "Plaintiff's Reply Memo" at 25. The court agrees that under the broad definitions found in § 101 of the Act, a transmission is a public performance whether made directly or indirectly to the public and whether the transmitter originates, concludes or simply carries the signal. There is simply no practical basis for excluding certain transmitters from copyright liability based solely on their position in the distribution chain. The court finds that the works were publicly performed for profit by both Turner and Southern and that

plaintiff has met its burden of proving the fourth element of a prima facie case.

III. *Section III*

Defendants agree that they did not seek or receive permission from plaintiff before they showed the works at issue. They argue, however, that they did not need such permission and raise several subparts of § 111 as, in effect, justifying their actions.

A. *Purposes of § 111*

Prior to the Copyright Act of 1976, copyright law did not restrict the retransmission by carriers or cable systems of copyrighted works embodied in the programming of distant or local broadcast stations. The Supreme Court had ruled that mere retransmission did not constitute a new "performance" of the work. Therefore, carriers and cable companies could not be liable for infringement. *Teleprompter Corp. v. Columbia Broadcasting System,* 415 U.S. 394, 94 S.Ct. 1129, 39 L.Ed.2d 415 (1974); *Fortnightly Corp. v. United Artists Television, Inc.,* 392 U.S. 390, 88 S.Ct. 2084, 20 L.Ed.2d 1176 (1968). Treatment of the burgeoning cable TV industry under copyright law proved controversial and delayed passage of the 1976 Act for eleven years. Eventually a compromise was reached and enacted as § 111 of the Act. H.R.Rep. No. 94-1476, 94th Cong., 2d Sess. 47-49, *reprinted in* [1976] U.S. Code Cong. & Ad.News 5659, 5660-62.

In the 1976 Act, Congress redefined the term performance to include such secondary transmissions, creating potential copyright liability for cable systems and carriers involved in such retransmissions. At the same time, however,

Congress provided complete exemption for certain secondary transmissions, such as those by a passive carrier under § 111(a)(3), and created a compulsory licensing system in § 111(c) allowing cable TV systems to retransmit the copyrighted programming of distant broadcast stations in return for certain royalty payments.

The compromise was intended to implement two divergent national policies. On the one hand, Congress wished to expand the public's access to diverse programming by encouraging development of the cable TV industry. *See, e.g., Capital Cities Cable Inc. v. Crisp,* —— U.S. ——, 104 S.Ct. 2694, 2703, 2706, 81 L.Ed.2d 580 (1984); *Sony Corp. of America v. Universal City Studios, Inc.,* —— U.S. ——, 104 S.Ct. 774, 775, 78 L.Ed.2n 574 (1984).

On the other hand, Congress clearly sought to protect local broadcasters and to further the purpose in the Copyright Clause, U.S. Const., Art. I, § 8, of rewarding the creators of copyrighted works. The whole rationale for the compulsory licensing system of § 111(c) and the royalty schedules of § 111(d) is that the market mechanism that compensates copyright owners through the sale of advertising by local independent broadcasters is disrupted by the free importation of these signals into distant areas.

> The market does not, however, as naturally compensate the owners of syndicated programming initially broadcast in communities remote from the cable system. Such programming is generally sponsored by local advertisers with little or no interest in the distant cable audience.
>
> Consequently, the Copyright Act requires cable operators to pay royalties as a function of the "distant signal equivalents" (DSEs) they carry.

National Cable Television Assoc. v. Copyright Royalty Tribunal, 689 F.2d 1077, 1079-80 (D.C.Cir. 1982) (footnotes omitted).

The Supreme Court recently reaffirmed the dual goals of § 111 when it said: "Compulsory licensing not only protects the commercial value of copyrighted works but also enhances the ability of cable systems to retransmit such programs carried on distant broadcast signals, thereby allowing the public to benefit by the wider dissemination of works carried on television broadcast signals." *Capital Cities Cable, Inc.*, 104 S.Ct. at 2706. With these purposes of § 111 in mind, the court now turns to the specific subsections the parties invoke and considers their application to the facts of this case.

B. *Section 111(b)*

Before considering whether or not Southern qualifies for the passive carrier exemption of § 111(a)(3) and whether or not its customers qualify for the compulsory licensing system of § 111(c), the court will consider whether or not the transmissions involved here fall within 17 U.S.C. § 111(b). Plaintiff claims that the secondary transmissions that occurred here are actionable as acts of infringement under § 111(b); secondary transmissions that fall within § 111(b), plaintiff says, are precluded from qualifying for the exemptions of § 111(a) or (c).

[4] Section 111(b) provides that certain secondary transmissions are actionable based upon the nature of the primary transmission. If the primary transmission is not made for reception by the public at large but is controlled and limited to reception by particular members of the pub-

lic, then the secondary transmission to the public of the primary transmission embodying a performance or display of a work is actionable. Plaintiff contends that the Turner/Southern cable transmission comes within this express language because of defendant Turner's practice of commercial substitution.

The parties have explained in great detail the technical process by which WTBS, Turner's Atlanta television station, transmits both a UHF or "off-the-air" signal and a microwave signal. They have also explained how Southern receives by direct microfeed link the microwave signal and how Southern's Lenco Video Detector is programmed to receive the microwave signal unless that signal is interrupted, in which case Southern picks up the over the air signal. *See, e.g.*, Affidavit of Gary W. Stanton; Affidavit of Jack D. Verner, Sr.; "Hubbard's Statement of Facts" V. At WTBS's studios, the UHF and the direct interconnection video switches select identical and simultaneous signals when embodying what the lay person would term a "program," for example, a segment of the TV show "I Dream of Jeannie" or a segment of a movie like "The Man Who Wouldn't Talk." Upon completion of such a segment, however, technicians operating the switches can select different commercial or other nonprogramming material. The UHF signal, for example, may carry a commercial for a local Atlanta supermarket. The microwave signal, however, could carry an advertisement of more national interest to the nationwide cable audience of Southern's cable company customers. Plaintiff terms this practice commercial substitution and contends that these changes may result in a variance of 40% in the nonprogramming content of the two signals. This altered microwave transmission is,

plaintiff says, a specialized cable-casted or pay-cable-type signal governed by § 111(b) as a "primary transmission ... not made for reception by the public at large but ... controlled and limited to reception by particular members of the public." 17 U.S.C. § 111(b).

Defendants contend that § 111(b) has no application to this case. Congress' purpose in enacting that section was to protect against unauthorized retransmissions of transmissions *not* intended for the general public, for example, of MUZAK. Turner's transmissions, defendants say, were intended for the general public. The focus of the Copyright Act is upon protection of rights in particular works, defendants explain, and not upon "signals" or technological means of signal delivery. Hubbard has no copyright interest in any of the commercial material broadcast by Turner and the signal sent to Southern embodying the five works that Hubbard bases its claims on was identical to, simultaneous with and originated from the same source as the signal embodying those works broadcast over the air. Commercial substitution does not create a separate primary transmission. In retransmitting the works, Southern was retransmitting programs broadcast to the general public by WIBS. *See* "Defendants' Joint Memo" at 48-52. Thus, defendants say, § 111(b) does not apply.

Plaintiff argues that the term transmission refers to the overall output of a transmitter and includes programs, commercials, station breaks and other non-programming material. Section 111(b) does not, plaintiff says, apply on a work-for-work basis. Plaintiff relies on the definitions in § 101, the prohibition on alteration of commercials by cable systems under the compulsory licensing scheme of § 111(c)(3) and various language in §§ 111(d)-(4) and 111

(f). *See* "Plaintiff's Reply Memo" at 38-43. In plaintiff's view, commercial substitution results in the creation of two transmissions, one of which falls within § 111(b).

The Copyright Act of 1976 unfortunately does not define the word transmission. Section 111(b) defines a primary transmission as "a transmission made to the public by the transmitting facility whose signals are being received and further transmitted by the secondary transmission service, regardless of where or when the performance or display was first transmitted." Section 101 says "To 'transmit' a *performance or display* is to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent." (Emphasis added.) Performance and display are not defined, but the act ties their meaning to a work nonetheless. Section 101 says "To 'display' a *work* means ..."; "To 'perform' a *work* means ..." (emphasis added). Finally, § 111(b) itself makes actionable the secondary transmission of "a primary transmission *embodying a performance or display of a work*...." (Emphasis added.)

The language of those sections seems to indicate that § 111(b) was intended to apply on a work-for-work basis. Viewed in that light, transmission of the five works to Southern was identical to the signal embodying those works broadcast over the air.

Even if "primary transmission" is read broadly to include commercials, station breaks and other nonprogramming material, it is not clear that the practice of commercial substitution results in the creation of two separate primary transmissions. Southern only receives *and* further transmits one signal, either the microwave or UHF signal. The practice of commercial substitution does not convert the entire

primary transmission into one "not made for reception by the public at large but ... controlled and limited to reception by particular members of the public" as required by § 111(b). Assuming plaintiff's figures are accurate, 100% of the programming content and 60% of the nonprogramming content of the two signals are identical. Of course, if none of WTBS's primary transmissions sent to Southern were identical to the over-the-air signal, in other words if WTBS created two entirely different signals with one for the public over the air and with another for Southern, then the court would be presented with a very different question. In the circumstances of this case, however, the court cannot say that the practice of commercial substitution requires application of § 111(b).

Plaintiff claims that it is not trying to impose § 111(c)(3)'s prohibition on commercial substitution by cable systems on Turner, the primary transmitter. *See* "Plaintiff's Reply Memo" at 42, n. 26. In effect, though, that is exactly what plaintiff seeks: plaintiff's argument is that any commercial substitution or any change in the "overall output of a transmission" results in application of § 111(b) because the primary transmission is no longer made for reception by the public at large. Application of § 111(b), plaintiff agrees, affects eligibility for the compulsory license of § 111(c) by the cable systems and eligibility for the passive carrier exemption of § 111(a)(3) by the carrier. "Plaintiff's Reply Memo" at 43. The court is not persuaded that Congress, if it had considered commercial substitution, would have intended such drastic consequences to flow from application of its admittedly unartful language in § 111(b). The court finds that § 111(b) does not apply to the transmissions involved in this case.

C. *Section 111(a) The Carrier Exemption*

Defendants contend they are entitled to summary judgment because Southern qualifies for the exemption of § 111(a)(3). That section provides that the secondary transmission of a primary transmission embodying a performance or display of a work is not an infringement of copyright if:

> [T]he secondary transmission is made by any carrier who has no direct or indirect control over the content or selection of the primary transmission or over the particular recipients of the secondary transmission, and whose activities with respect to the secondary transmission consist solely of providing wires, cables, or other communications channels for the use of others ....

Defendants note that the distribution of the programming of distant broadcast stations, which lies at the heart of the compulsory licensing system, depends upon the activities of carriers, whether satellite resale common carriers like Southern or terrestrial microwave carriers. Without such carriers, cable systems could obtain only the programming of broastcast stations that could be received off the air, effectively eliminating carriage of distant stations. Eligibility of the carrier for the § 111(a)(3) exemption is thus important to the functioning of the compulsory licensing system.

Plaintiffs agrees that § 111(a)(3) reflects Congress' concern that a truly passive carrier that merely supplies technical facilities for use of its customers be exempt from copyright liability. At the same time, plaintiff says that Congress

was also concerned that such an exemption not be misused to provide a loophole for commercial transmitters to the public. The exemption was carefully drawn and not meant to be construed expansively.

Section 111(a)(3) identifies five elements of an exempt transmission: (1) the transmission must be made by a carrier; (2) the transmission must be a secondary transmission of a primary transmission embodying a performance or display of a work [from § 111(a)]; (3) the carrier cannot have direct or indirect control over the content or selection of the primary transmission: (4) nor over the particular recipients of the secondary transmission; and (5) the carrier's activities with respect to the secondary transmission must consist solely of providing wires, cables or other communications channels for the use of others. Defendants contend that Southern meets all of these requirements. Plaintiff contends Southern does not.

The court is aware that this case requires interpretation of a statute enacted before development of the communications arrangements involved. As another court faced with a similar situation said:

> This case ... has its genesis in the burgeoning technological advances of the communications industry ....
>
> Confronted with the need to divine and apply the intent of Congress, and with a statute enacted in the technological milleau of an earlier time, we "look to the 'common sense' of the statute ..., to its purpose, [and] to the practical consequences of the suggested interpretations ... for what light each inquiry might shed."

Eastern Microwave, Inc. v. Doubleday Sports, Inc., 691

F.2d 125, 127 (2d Cir. 1982), *cert denied*, 459 U.S. 1226, 103 S.Ct. 1232, 75 L.Ed.2d 467 (1983). The Supreme Court has advocated a cautious approach in dealing with new technologies under the copyright laws. That Court has said:

> The judiciary's reluctance to expand the protections afforded by the copyright without explicit legislative guidance is a recurring theme.... Sound policy, as well as history supports our consistent deference to Congres when major technological innovations alter the market for copyrighted materials....
>
> In a case like this, in which Congress has not plainly marked our course, we must be circumspect in construing the scope of rights created by a legislative enactment which never contemplated such a calculus of interests....

Sony Corporation of America v. Universal City Studios, Inc., —— U.S. ——, ——, 104 S.Ct. 774, 783, 78 L.Ed. 2d 574 (1984).

Defendants say the first element is met because Southern is a carrier. Southern has been licensed by the FCC as a resale common carrier. *In re Application of Southern Satellite Systems, Inc.*, 62 F.C.C.2d 153 (1976). The Second Circuit in *Eastern Microwave, Inc. v. Doubheday Sports, Inc.*, 691 F.2d 125, at 129 n. 10, (1982), *cert denied*, 459 U.S. 1226, 103 S.Ct. 1232, 75 L.Ed.2d 467 (1983), found that EMI, licensed pursuant to the same authority as Southern, 47 U.S.C. § 214, was a carrier for purposes of § 111(a)(3). Furthermore, Congress in the 1976 Act intended to expand the coverage of the exemption beyond the tradition-

al common carrier concept, rather than limit it as plaintiff suggests. While the exemption was originally for "common carriers," it was later expanded to cover new types of carriers such as "a common, contract or special carrier" and finally broadened in the 1976 Act to "any carrier," evidencing Congress' intent not to limit the class to a particular type of carrier. *See* "Defendants' Joint Memo" at 21-22, n. 7 and authority cited therein.

Plaintiff argues that Southern is not a carrier as that term was used in § 111(a)(3). Passivity is the sine qua non for the exemption, plaintiff says. The term carrier had an accepted meaning when the 1976 Act was passed and that meaning was limited to traditional common carriers like the phone company. Such passive carriers generally provided facilities for customers who chose the intelligence to be transmitted over the channel. Southern, in contrast, reversed this accepted meaning of the term by itself selecting the signal to transmit to the customer who became a passive recipient. Congress' use of the term carrier in § 111 (a)(3) was not intended to include the radically new meaning given it by the FCC when it licensed Southern and others as resale common "carriers" after the Act was passed, plaintiff claims.

[5] The court finds that Southern is a carrier for purposes of § 111(a)(3). Congress clearly intended that term to be construed broadly when it said "any carrier." While the status of Southern as a resale common carrier with the FCC is not dispositive and while the court is mindful that communications policy and copyright policy may diverge, nonetheless the court finds that Southern's FCC licensing status is entitled to some weight. The court is not per-

suaded that Congress intended to restrict the exemption to traditional carriers or even to new types of carriers only if they exhibited the total passivity historically associated with traditional carriers. A similar argument was made and rejected in *Eastern Microwave,* 691 F.2d at 129, n. 10 where the Second Circuit said, "Though Doubleday insists on comparing EMI with the telephone company, the statute speaks in terms of 'any carrier' ...and EMI is licensed by the FCC as a common carrier ...." The court concludes that Southern is a carrier for purposes of § 111 (a)(3).

[6] Section 111(a)'s carrier exemption requires in addition to carrier status that the transmission be a secondary transmission of a primary transmission embodying a performance or display of a work. Defendants contend that this requirement is met. *See* "Defendants' Joint Memo" at 22-38. Many of these arguments have already been discussed in part IIIB *supra.* Essentially, defendants argue that the retransmissions were secondary transmissions of primary transmissions of the works and that the direct microwave feed is a technological improvement that improves signal quality but does not alter the nature of the retransmissions. "Defendants' Joint Memo" at 23 and 24. The process of commercial substitution, discussed in part IIIB, *supra,* does not alter the nature of the retransmissions. *See* "Defendants' Joint Memo" at 25-27. Nowhere, defendants say, is there a requirement that a secondary transmitter must pick up the primary transmission "off-the-air." FCC rules and regulations permit the direct interconnection and Southern is not the first or only intermediate carrier to interconnect with the studios of the TV stations whose signal it delivers. *Id.* at 30, n. 10.

Plaintiff contends that Southern's retransmission may not constitute the "secondary transmission of a primary transmission" for the same reasons it advanced regarding § 111(b). *See* "Plaintiff's Reply Brief" at 34-35 and "Plaintiff's Letter Brief" at 3. Plaintiff appeared to concede at oral argument that, if defendants sent identical transmissions either over the air or by direct microfeed or both, plaintiff would have no complaint. Thus, the heart of plaintiff's complaint is the commercial substitution practice.

For the reasons discussed in part IIIB *supra* regarding § 111(b), the court finds that defendant Southern's retransmissions are the "secondary transmission of a primary transmission embodying a performance or display of a work" for purpose of § 111(a)(3).

[7] The third requirement of § 111(a)(3) is that the carrier have no direct or indirect control over the content or selection of the primary transmission. This requirement has two aspects: control over content and control over selection. Defendants argue that Southern exercises no control over the content of the transmissions. The direct interconnection does not result in control—Southern simply retransmits without alteration the signal it receives from WTBS. WTBS alone determines the contents of that signal. Hubbard's allegation that Southern contacted personnel at WTBS with programming ideas and put people with programming ideas in touch with personnel at WTBS does not amount to control over programming. The Second Circuit in *Eastern Microwave*, 691 F.2d at 130, found that this requirement means that "a carrier-retransmitter must avoid content control by retransmitting exactly what and all of what it receives, as EMI does here." Defendants argue that Southern, just like EMI, meets that test.

Defendants also say that Southern exercises no control over selection of the transmission. Southern's decision to act as a carrier for WTBS's transmissions does not constitute such control. At the time of its application to the FCC for certification as a communications carrier, Southern had to select the broadcast station whose signal it would retransmit. The FCC's initial authorization limited Southern to distributing WTBS's signal, although the restriction has been lifted. Technologically, RCA had only a limited number of satellite transponders available and the cost of leasing additional transponders was prohibitive. The defendant in *Eastern Microwave* asserted that plaintiff EMI's decision to retransmit WOR-TV amounted to selection of the primary transmission, disqualifying it for the carrier exemption. Noting that only one satellite transponder was available to EMI, the court reasoned:

> Technical restrictions which forced EMI to make an initial one-time determination to retransmit the signals of a particular station, whatever the content of those signals, do not evidence the "control over the content and selection of the primary transmission" intended to be precluded under Section 111(a)(3). In the ordinary common carrier context, the carrier must render its service to all comers, denying it to none on the basis of content, and must not select or choose among those who seek to use its service, on any basis other than a legitimate business reason. When the communication service is technologically limited to one sender, however, a type of "selection" is impelled. That type of forced "selection" cannot be the type precluded by the statute in the context here presented, for to so hold would be to require that ex-

> emption be denied to any carrier that did not retransmit every television broadcast of every television station in the country.

Id. at 130. Defendants say that Southern is no different from EMI and that the reasoning of the Second Circuit applies with equal force to the circumstances of this case.

Plaintiff contends that Southern exercised control over both the content and selection of the primary transmission. Southern staff have suggested programming ideas to Turner's programming specialists and have played an active role in televising away-from-home sports events. Southern actively participates in the commercial substitution that affects 40% of the nonprogramming content, thus exerting control over content. In addition, plaintiff argues that Southern "selected" the primary transmission to transmit, just as the cable companies select the broadcaster(s) to whom their antennas will be tuned. That selection disqualifies cable companies from the exemption and should disqualify Southern as well. Defendants' interpretation that the technologically mandated choice of stations to be retransmitted does not constitute selection would read the word "selection" out of the Act. All cable systems carrying TV signals rather than their own programming would qualify for the § 111(a) exemption and the § 111(c) compulsory licensing system would not be used. Furthermore, plaintiff says, Southern selects the primary transmission by programming its Lenco video presence detector switch to select the microwave transmission over the UHF transmission. If the two signals were identical, Southern might be able to argue that no selection takes place, but because the transmissions differ due to commercial substitution, plaintiff

maintains that Southern clearly selects the primary transmission to retransmit.

The court finds that Southern did not exercise direct or indirect control over the content or selection of the primary transmission. There is no evidence that Southern exercised control over the content of the primary transmission, other than via the commercial substitution practice, discussed *infra*. Southern also did not exercise control over the selection of the primary transmission. The court agrees with the Second Circuit in *Eastern Microwave* that the technologically mandated initial choice of the broadcaster's signal to retransmit does not constitute "selection" for purpose of § 111(a)(3). Except for the practice of commercial substitution, Southern is indistinguishable from EMI. This interpretation of "selection" does not result in all cable companies qualifying for the exemption, as plaintiff fears, because those companies would still have to meet the other requirements of § 111(a)(3).

[8] The practice of commercial substitution also does not result in Southern exercising control over content or selection. WTBS, not Southern, changes the content of commercial and other nonprogramming material on the direct miscrofeed signal. Southern retransmits without alteration the signal it receives from WTBS. Southern always retransmits the signal received by direct interconnection and only when that signal is interrupted by WTBS or fails does Southern retransmit the off-the-air signal. *See* "Affidavit of Gary W. Stanton" at 4. Plaintiff's counsel at oral argument agreed that WTBS owns and operates the switch that can interrupt and stop the transmission of the microwave signal causing the Lenco video presence detector to choose the UHF signal. *See* "Hubbard's Statement

of Facts" and authority cited therein at 27. In fact, during broadcast of the Atlanta Braves games, Turner activates a switch at WTBS during the play-by-play that causes the video detector to switch to the UHF signal. At the commercial breaks, Turner switches the switch back to reestablish the microwave signal containing national commercials. This procedure demonstrates that Turner, not Southern, exercises the control over the selection of primary transmission.

[9] The fourth requirement of § 111(a)(2) is that the carrier exercise no direct or indirect control over the particular recipients of the secondary transmission. Defendants contend that Southern exercises no more control over the recipients of its transmissions than did EMI. The recipients are cable systems that comply with the provisions of Southern's FCC tariff, sign a written contract to receive the service, and pay the applicable rates. Southern has FCC authority to act as a resale common carrier and has complied with the legal requirements imposed upon it, including the requirement that it not refuse reasonable requests for service. The Second Circuit in *Eastern Microwave* concluded that the fact that EMI operated under FCC approved tariffs, which a particular cable TV system might not meet, did not mean EMI exercised control over its recipients, nor did EMI's status as a resale carrier serving the receiver rather than the sender of the communication change that conclusion.

Plaintiff does not appear to address the fourth element of § 111(a)(3). The court finds that Southern exercises no control over its recipients and is indistinguishable in that respect from EMI. This court agrees with the reasoning of the Second Circuit and concludes that Southern meets the fourth requirement of § 111(a)(3).

[10] The fifth requirement is that the carrier's activities with respect to the secondary transmission consist solely of providing wires, cables or other communications channels for the use of others. Defendants say that this passivity requirement applies to the carrier's conduct with respect to the secondary transmission. This section does not require total passivity but allows the carrier to engage in normal business activities such as marketing and promotional efforts. Prohibiting promotional activity would be contrary to the FCC policy of promoting entry into the resale common carrier field, would hinder the public's access to diverse programming and would not protect any rights that copyright owners might have in those transmissions. In *Eastern Microwave,* the defendant "complained bitterly" of EMI's promotional and marketing activities. Defendant argued that EMI provided wires, etc. for its own use because it was "selling" the Mets games. The court said, "Engaging in those normal business activities does not, however, constitute doing 'more than' providing wires, etc. Compliance with the ... requirement is met if a carrier does no more than provide wires, etc., 'with respect to the secondary transmission.' " *Id.,* 691 F.2d at 131, n. 15 and accompanying text. Similarly, defendants say Southern's activities with respect to the secondary transmission are limited to providing wires, cables and other communications channels for the use of others.

Plaintiff says that Southern does not meet this requirement, first, because Southern is not passive with respect to the secondary transmission, but instead actively manipulates that transmission by adding its own material to the "vertical blanking interval" (VBI).[1] Second, plaintiff says, Southern

[1] *See* "Hubbard's Statement of Facts" VI for technical explanation of VBI.

fails to meet the requirement because it "sells" WTBS, not just a communications channel. Plaintiff's argument is that Southern's financial success depends upon the marketability of the content of Turner's transmission. Southern's income depends not only on the number of cable systems that desire the WTBS signal, but also on the number of subscribers each cable system attracts because Southern contracts with the cable systems to provide the WTBS signal for 10¢ per subscription per month. "Hubbard Statement of Facts" VII at 30 and sources cited therein. Thus, plaintiff says, Southern is vitally interested in the content of Turner's signal because the signal is what Southern is selling, not just a communications channel. Southern's activities, therefore, do not consist solely of providing wires, cables and other communication channels for the use of others.

The court finds that Southern's activities with respect to the secondary transmission consist solely of providing wires, cables or other communications channels for the use of others. The court agrees that this section does not prohibit normal business activities such as marketing and promotional efforts. Southern does not "sell" WTBS and violate the exemption merely because demand for its services from cable companies is dependent upon demand for the WTBS signal from cable subscribers. While Southern recognizes this relationship in its fee arrangements and is "vitally interested" in the quality of WTBS's signal, those interests do not rise to the level of activities inconsistent with the passive carrier role.

[11] The court also agrees with defendants that Southern's use of the VBI is not relevant to a consideration of Southern's activities with respect to the retransmission

of WTBS's signal. Hubbard has no copyright interest in the material inserted in the empty space of Turner's video signal. The VBI is a means of communication totally distinct from the TV signal itself. "Defendant's Joint Memo" at 46, n. 19 and authority therein. The case of *WGN Continental Broadcasting Co. v. United Video, Inc.*, 693 F.2d 622 (7th Cir. 1982) is easily distinguishable because in that case the material inserted by the broadcaster, WGN, in the VBI and wrongfully deleted by the carrier, United Video, was sufficiently related to the news programs to comprise a single copyrighted audiovisual work. United Video lost the passive carrier exemption because it did not retransmit WGN's signal intact but instead deleted the broadcaster's information in the VBI and substituted its own. *Id.* at 624 and 625. That situation is very different from Southern's insertion of material in an otherwise blank spot on the signal. Such use of the VBI does not disqualify Southern from exemption.

The court has concluded that Southern meets each of the requirements of § 111(a)(3)'s carrier exemption. Consequently, Southern's secondary transmissions in this case cannot form the basis for liability for copyright infringement.

D. *Section 111(c) The Compulsory License*

[12] Section 111(c) embodies the compulsory licensing scheme central to enactment of Congress' compromise in the Copyright Act of 1976. *See* discussion of purposes of § 111 in part IIIA, *supra*. Although plaintiff initially seemed to argue that Turner and Southern together had created a cable network or system ineligible for the com-

pulsory license of § 111(c)(1), mostly because of the commercial substitution practice, *see* "Plaintiff's Memo" at 22-32, Hubbard apparently now concedes that § 111(c) is largely relevant as an aid to the court in interpreting § 111(a). *See* Statements at Oral Argument and "Plaintiff's Letter Brief."

Plaintiff's main argument is that § 111(c) and, in particular the prohibition on commercial substitution by cable companies found in § 111(c)(3), evidences a congressional intent to protect the local broadcaster. Plaintiff also argues that commercial substitution prevents application of the § 111(c) compulsory license to Southern's cable system customers. Section 111(c)(1) applies to "secondary transmission to the public by a cable system of a primary transmission made by a broadcast station." The legislative history of § 111(c) states:

> The compulsory license applies, therefore, to the carriage of the over-the-air broadcast signals and is inapplicable to the secondary transmission of any nonbroadcast primary transmission such as a program originated by a cable system or a cable network. The later would be subject to full copyright liability under other sections of the legislation.

House Report at 93, U.S.Code Cong. & Admin.News 1976, p. 5707. Since Southern's cable customers are not carrying the over-the-air signal broadcast to the Atlanta market but instead carry a nonbroadcast signal with substituted national commercials sent by direct interconnection, plaintiff claims that Southern's customers do not qualify for the compulsory license. If a cable system does not have a compulsory license, plaintiff maintains, all par-

ties in the transmission chain are liable for contributory infringement if they possess knowledge or control of, or benefit from, the infringement. *See* "Plaintiff's Letter Brief" at 1, 2 and 4.

Defendants claim that Turner and Southern operate completely within the parameters of the compulsory licensing system established in § 111. Defendants argue that Hubbard improperly seeks to alter the congressional and regulatory balancing of complex competing interests embodied in § 111 by this action. *See* "Defendants' Joint Memo" at 52-59; "Defendants' Joint Reply Memo" at 4-6, and at 17-21. The compulsory licensing system is not, as plaintiff suggests, a narrow exception to normal rules of copyright liability. Instead, it constitutes a congressionally mandated grant of a broad copyright license to the cable industry to retransmit copyrighted works embodied in the programming of broadcast stations. A finding that Southern is entitled to the § 111(a) exemption, defendants say, facilitates the workings of the § 111(c) compulsory licensing scheme, thus promoting the policies and purposes Congress hoped to achieve in § 111.

The court agrees that an understanding of § 111(c) is important to a proper interpretation of § 111(a). While the court has examined the availability of the § 111(a) exemption to Southern in part IIIC, *supra* by analyzing the five specific requirements of that section, it is true that the applicability of § 111(a) should not be determined without considering the effect of an exemption on the compulsory licensing scheme of § 111(c) and on attainment of the dual goals of § 111 as a whole. The Second Circuit in *Eastern Microwave*, after concluding that EMI met the specific requirements of § 111(a), also considered the im-

pact imposition of liability would have on the compulsory licensing scheme. The court explained:

> Interpretation of the Act must occur in the real world of telecommunications, not in a vacuum. The center-piece of the compromise reflected in the Act is the compulsory licensing scheme. That scheme is predicated on and presupposes a continuing ability of CATV systems to receive signals for distribution to their subscribers ....
>
> Congress drew a careful balance between the rights of copyright owners and those of CATV systems, providing for payments to the former and a compulsory licensing program to insure that the latter could continue bringing a diversity of broadcasted signals to their subscribers. The public interest thus lies in a continuing supply of varied programming to viewers. Because CATV systems served by intermediate carriers cannot provide their full current programming to their subscribers without the services of those carriers, *imposition of individual copyright owner negotiations on intermediate carriers would strangle CATV systems by choking off their life line to their supply of programs,* ... and, most importantly, would frustrate the congressional intent reflected in the Act by denying CATV systems the opportunity to participate in the compulsory licensing.

Eastern Microwave, 691 F.2d at 132-33 (footnotes omitted). This court concurs in that analysis.

The practice of commercial substitution by WTBS, as opposed to substitution by the cable company itself, does

not violate § 111(c)(3) and result in loss of the compulsory license for Southern's cable customers. That practice does not change the nature of the secondary transmissions by the cable systems "of a primary transmission made by a broadcast station." The transmission, whether by UHF or direct interconnection, still meets the definition of primary transmission in § 111(f), and is still made by a broadcast station. The House Report that distinguishes between over-the-air broadcast signals and nonbroadcast cable-originated transmission predated the advent of this technology and does not compel the conclusion that only "over the air" signals and their retransmission qualify for the compulsory licensing scheme of § 111(c)(1). Much of plaintiff's argument here is really a variation of its argument that § 111(b) applies to these transmissions, discussed in § IIIB, *supra*, and the court rejects that argument. Southern's cable customers qualify for the § 111(c)(1) compulsory licensing scheme.

The court is persuaded that application of the § 111(a) carrier exemption to Southern is compatible with application of the § 111(c) compulsory license to Southern's customers and, in fact, furthers the dual goals embodied in § 111.

IV. *Conclusion*

[13] The court has concluded that Southern is entitled to the carrier exemption of § 111(a)(3) and its cable customers fit within the compulsory licensing scheme of § 111(c). Thus, Southern as a matter of law is not liable for copyright infringement in its retransmissions of the five works at issue. Accordingly, Turner as a matter of law cannot be liable as a contributory infringer. In addition, there

has obviously as a matter of law been no conspiracy to infringe Hubbard's copyrights.

On a motion for summary judgment, the court must view all the evidence in the light most favorable to the nonmoving party. *Jackson v. Star Sprinkler Corp. of Fla.*, 575 F.2d 1223, 1226 (8th Cir. 1978). Summary judgment may only be granted when the pleadings, depositions, interrogatory answers, admissions, and affidavits show there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law. *Scherr Construction Co. v. Greater Huron Development Corp.*, 700 F.2d 463, 465 (8th Cir. 1983). Only if "the moving party has established [the] right to a judgment with such clarity as to leave no room for controversy and the nonmoving party is not entitled to recover under any discernible circumstances" is summary judgment appropriate. *Butler v. MFA Life Ins. Co.*, 591 F.2d 448, 451 (8th Cir. 1979).

The court finds that there are no genuine issues of material fact in dispute and that the entire record, viewed in the light most favorable to plaintiff, establishes that plaintiff is not entitled to recover as a matter of law under any discernible circumstances. Accordingly, defendants' motion for summary judgment will be granted and plaintiff's motion for summary judgment will be denied.

Upon the foregoing,

IT IS ORDERED That defendant Turner Broadcasting System, Inc.'s and Southern Satellite System, Inc.'s joint motion for summary judgment be and hereby is granted.

IT IS FURTHER ORDERED That plaintiff Hubbard Broadcasting, Inc.'s motion for summary judgment be and hereby is denied.

IT IS FURTHER ORDERED That plaintiff's complaint be and hereby is dismissed with prejudice.

IT IS FINALLY ORDERED That the Clerk enter judgment as follows:

IT IS ORDERED, ADJUDGED AND DECREED That defendants' motion for summary judgment is granted and plaintiff's complaint is dismissed with prejudice.

HUBBARD BROADCASTING, INC., a Minnesota corporation, Appellant,

v.

SOUTHERN SATELLITE SYSTEMS, INC., a Georgia corporation, Turner Broadcasting System, Inc., a Georgia corporation, Appellees.

No. 84-5173.

United States Court of Appeals,
Eighth Circuit.

Submitted Feb. 11, 1985.
Decided Nov. 13, 1985.

* * *

Sidney Barrows, Minneapolis, Minn., for appellant.

Duane W. Krohnke, Minneapolis, Minn., for appellees.

Before LAY, Chief Judge, and HEANEY and FAGG, Circuit Judges.

FAGG, Circuit Judge.

Hubbard Broadcasting, Inc. (Hubbard) appeals the dismissal of its copyright infringement action. That action,

brought against Southern Satellite Systems, Inc. (Southern or Southern Satellite) and Turner Broadcasting System, Inc. (Turner or Turner Broadcasting), involves the interpretation and application of various provisions of section 111 of the Copyright Act of 1976, 17 U.S.C. § 111. The district court, after examining the relevant provisions of section 111, concluded that neither Southern Satellite nor Turner was guilty of copyright infringement. *Hubbard Broadcasting, Inc. v. Southern Satellite Systems, Inc.*, 593 F.Supp. 808, 823 (D.Minn. 1984). We agree and affirm the district court's dismissal of Hubbard's action.

Legislative and Factual Background

Section 111 of the Copyright Act of 1976 provides for a compulsory copyright licensing program applicable to cable systems that retransmit television signals containing copyrighted programming material. *See* 17 U.S.C. § 111 (c)-(d). Prior to the enactment of this licensing program, cable systems, unlike television broadcast stations, paid no copyright royalties even though cable systems, like television stations, transmitted copyrighted material to the general public. This situation was in large part the result of two Supreme Court decisions in which the Court concluded that the retransmission of television signals by cable systems did not constitute a "performance" under the Copyright Act of 1909, and therefore did not give rise to copyright liability. *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S. 394, 94 S.Ct. 1129, 39 L.Ed.2d 415 (1974); *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390, 88 S.Ct. 2084, 20 L.Ed. 2d 1176 (1968); *see also Capital Cities Cable, Inc. v. Crisp.* —— U.S. ——, 104 S.Ct. 2694, 2705, 81 L.Ed. 2d 580 (1984).

In revising the Copyright Act, however, Congress determined that cable systems should, in some instances, be required to pay copyright royalties to the creators of copyrighted programs. *See* H.R.Rep. No. 1476, 94th Cong., 2d Sess. 89, *reprinted in* 1976 U.S.Code Cong. & Ad.News 5659, 5704. At the same time, Congress "recognized that 'it would be impractical and unduly burdensome to require every cable system to negotiate [appropriate royalty payments] with every copyright owner' in order to secure consent for such retransmissions." *Capital Cities Cable, Inc.*, 104 S.Ct. at 2706 (quoting H.R.Rep. No. 1476, 94th Cong., 2d Sess. 89, *reprinted in* 1976 U.S.Code Cong. & Ad.News at 5704); *see also National Cable Television Association, Inc. v. Copyright Royalty Tribunal*, 724 F.2d 176, 179 (D.C.Cir. 1983) ("Individual marketplace negitiations * * * would entail inordinately high transaction costs.").

As a result, rather than require cable systems to contract with each program creator individually, Congress established a compulsory licensing program for qualifying cable systems. *See* 17 U.S.C. § 111(c)-(d). Under this program, cable television systems pay a semiannual fee into the Register of Copyrights. *Id.* § 111(d)(2). In return, cable systems receive a license entitling them to retransmit to their subscribers certain television signals containing copyrighted programming. *See id.* § 111(c)-(d). The fees deposited by the cable systems are subsequently distributed to eligible copyright owners by the Copyright Royalty Tribunal. *See id.* §§ 111(d) (5), 801(b)(3).

While determining that cable systems should be required to pay licensing fees for the retransmission of copyrighted programming, Congress also concluded that the compul-

sory licensing program would not be applicable in all instances. Specifically, Congress rejected application of the compulsory license to a cable system's rebroadcast of local television signals because Congress found "no evidence that the retransmissions of 'local' broadcast signals by a cable operator threaten[ed] the existing market for copyright program owners." H.R.Rep. No. 1476, 94th Cong., 2d Sess. 90, *reprinted in* 1976 U.S.Code Cong. & Ad. News at 5704. Congress further concluded that "the retransmission of network programming, including network programming which is broadcast in 'distant' markets, does not injure the copyright owner [since] [t]he copyright owner contracts with the network on the basis of his programming reaching all markets served by the network and is compensated accordingly." *Id.*

With respect to the retransmission of distant non-network programming, however, Congress determined that the

> retransmission of distant non-network programming by cable systems causes damage to the copyright owner by distributing the program in an area beyond which it has been licensed. Such retransmission adversely affects the ability of the copyright owner to exploit the work in the distant market. It is also of direct benefit to the cable system by enhancing its ability to attract subscribers and increase revenues.

Id. at 90, *reprinted in* 1976 U.S.Code Cong. & Ad.News at 5704-05. On the basis of these various determinations, Congress "concluded that the copyright liability of cable television systems under the compulsory license should be limited to the retransmission of distant non-network programming." *Id.* at 90, *reprinted in* 1976 U.S.Code Cong.

& Ad.News at 5705; *see* 17 U.S.C. § 111(d)(2)(A) and (d)(4); *see also Christian Broadasting Network, Inc. v. Copyright Royalty Tribunal*, 720 F.2d 1295, 1303 (D.C. Cir. 1983).

By specifically limiting the copyright liability of cable systems to the retransmission of distant non-network programming, Congress clearly anticipated that television signals carrying this type of programming would be readily available to cable systems and their subscribers. *See Eastern Microwave, Inc. v. Doubleday Sports, Inc.*, 691 F.2d 125, 132 (2d Cir. 1982), *cert. denied*, 459 U.S. 1226, 103 S.Ct. 1232, 75 L.Ed.2d 467 (1983). One particularly important provision of the Copyright Act intended by Congress to help accomplish this goal is the carrier exemption of section 111(a)(3). This exemption protects from copyright liability communications carriers (here Southern) that retransmit secondarily the "primary transmission" of a licensed television broadcast station (here Turner or WTBS) to cable systems. *See* 17 U.S.C. § 111(a), (f). This exemption is applicable, however, only if:

> the secondary transmission [of the primary transmission] is made by a [ ] carrier who has no direct or indirect control over the content or selection of the primary transmission or over the particular recipients of the secondary transmission, and whose activities with respect to the secondary transmission consist solely of providing wires, cables, or other communications channels for the use of others * * *

Id. § 111(a)(3). In other words, communications carriers that are sufficiently passive with respect to the actual retransmission of television signals incur no copyright liabil-

ity when acting as a communications conduit between the distant broadcast station and interested cable systems.

At the core of the relatively complex statutory scheme of section 111 is an attempt by Congress "to further the important public purposes framed in the Copyright Clause, U.S. Const. Art. I, § 8, of rewarding the creators of copyrighted works and of 'promoting broad public availability of literature, music, and the other arts.' " *Capital Cities Cable, Inc.*, 104 S.Ct. at 2706 (citations omitted). By enacting compulsory licensing provisions, Congress "not only [sought to] protect[ ] the commercial value of copyrighted works but also enhance[d] the ability of cable systems to retransmit such programs carried on distant broadcast signals, thereby allowing the public to benefit by the wider dissemination of works carried on television broadcast signals." *Id.* (footnote omitted); *see also Eastern Microwave, Inc.*, 691 F.2d at 132 (emphasizing Congress' intent to ensure a diversity of broadcast signals). With this general legislative framework in mind, we turn to the actions that gave rise to Hubbard Broadcasting's complaint.

Southern Satellite is licensed by the Federal Communications Commission (FCC) to provide services as a communications common carrier. At issue here is Southern Satellite's retransmission of WTBS, an Atlanta based television station owned and operated by Turner Broadcasting. WTBS is licensed by the FCC as a television broadcast station. Like other commercial television stations, Turner transmits the WTBS video signal to the viewing public free of charge and generates WTBS' income principally from advertising revenues. *See Capital Cities Cable, Inc.*, 104 S.Ct. at 2701.

In December of 1976, after receiving FCC approval,

Southern Satellite began to retransmit the WTBS signal to cable systems around the nation. At that time, Southern Satellite received the WTBS signal over the air by means of a UHF receiving antenna. After reception by Southern, the WTBS signal was retransmitted in its entirety and without modification to a satellite transponder leased by Southern from RCA. From there the WTBS signal was relayed by the satellite back to receiving antennae on earth. These antennae are normally owned by cable systems. After reception by a cable system, the WTBS signal was relayed to the system's headend and from this point was distributed by wire to individual cable subscribers.

Between 1976 and April of 1979, the WTBS video signal retransmitted by Southern Satellite was broadcast by WTBS over the air (UHF signal). The UHF signal was the only video signal generated by WTBS at that time. During that period, Southern received various complaints concerning the overall quality of the WTBS picture. In response, Southern Satellite began to explore the possibility of receiving the WTBS signal by means of a direct microwave connection between WTBS and Southern Satellite. If such a connection could be established, both the quality and the reliability of the WTBS picture would be improved.

Turner, for separate and distinct business reasons, was also interested in developing a direct microwave connection with Southern Satellite. The establishment of such a connection would enable Turner to generate two video signals; one signal that would be transmitted over the air to the Atlanta area and a second signal that would be transmitted directly to Southern Satellite by microwave connection. Both of the WTBS signals would be generated simultaneously and would be identical with respect to all pro-

gramming material and with respect to most nonprogramming material (approximately 60 percent). However, rather than transmit local Atlanta area advertising on both signals, local advertising made available to the Atlanta audience on the UHF signal would be substituted with national advertising on the microwave signal. This technical process would allow Turner to take full economic advantage of WTBS' nationwide exposure while at the same time and at lower rates still provide local advertising to the Atlanta area.

Turner had significant economic incentive to take advantage of the nationwide exposure resulting from Southern's retransmission of WTBS. Although Southern's retransmission of WTBS made that signal available to cable systems and their subscribers nationwide, Turner itself received no licensing fees or other payments from either Southern Satellite or the cable systems that received WTBS. In fact, even if Turner had wished to do so, it could not legally have prevented or controlled the retransmission of WTBS by Southern Satellite or any other communications carrier. Thus, because Turner could not prevent nationwide distribution of its signal, it understandably sought to take economic advantage of that distrubition.

In October of 1978, Southern Satellite applied to the FCC for permission to develop the microwave facilities necessary to create a direct microwave connection between itself and WTBS. Turner, of course, consented to the establishment of this direct connection. Southern Satellite received permission from the FCC in March of 1979. By mid-April, in addition to receiving the WTBS UHF signal, Southern Satellite began receiving a second WTBS signal by direct microwave connection. In July, Southern Satellite

notified the FCC that it was receiving the WTBS signal by direct microwave connection.

Since April of 1979, WTBS has transmitted two signals, both of which are received by Southern. One signal is transmitted over the air. The other is transmitted by direct microwave connection.

The UHF signal created by WTBS is first transmitted to a UHF transmitter owned by Turner. From there, the signal is transmitted over the air to the local Atlanta market. The WTBS UHF signal is received by Southern over the air on its own UHF antenna. The WTBS microwave signal is transmitted to a microwave transmission antenna that is located on a WTBS tower. The microwave transmitter and the transmission antenna are owned and maintained by Southern Satellite. After transmission from this antenna, the microwave signal is received by Southern Satellite's microwave receiver antenna.

Upon receipt by Southern Satellite, both WTBS signals are sent through a device known as a lenco video presence detector (presence detector). The presence detector is owned by Southern and is programmed to select automatically and without comparison one of the two incoming WTBS signals. In this case, the presence detector automatically and at all times selects the WTBS microwave signal unless that signal is interrupted or is substantially degraded in quality. If this should occur, the presence detector, again automatically, shifts to the UHF signal. This shift assures that Southern's retransmission of WTBS to subscribing cable systems will not be interrupted. Regardless of which WTBS signal emerges from the presence detector, it is then retransmitted by Southern Satellite in its entirety and without editing or modification.

In addition to shifting automatically if the microwave signal is impaired, a switch does exist that can be used to shift the presence detector from one signal to the other if necessary. This switch is owned and operated by Turner and is located in the WTBS studio. Southern has no interest in and no control over the use of this switch.

Today, Southern Satellite's retransmission of WTBS is received by several thousand cable television systems throughout the country. As a result, the copyrighted programming embodied in the WTBS signal is available to approximately 30,000,000 cable subscribers. Cable systems receiving the WTBS signal pay Southern Satellite a fee for its services. These cable systems are also subject to the compulsory licensing program and pay a percentage of their gross receipts into the Register of Copyrights for the right to show the copyrighted works contained in the WTBS signal. Southern Satellite pays no copyright fees to Turner, to the Copyright Royalty Tribunal, or to the creators of the copyrighted programming.

Hubbard Broadcasting operates local television stations in three markets reached by the WTBS signal (Minneapolis-St. Paul, Minnesota; Albuquerque, New Mexico; and St. Petersburg, Florida). Hubbard, like WTBS subsists almost entirely from money generated by the sale of advertising. Also like WTBS, Hubbard pays licensing fees to copyright owners for the right to show much of the programming made available by its stations. Several programs licensed by Hubbard were also licensed by Turner, and as a consequence of Southern's retransmission of WTBS, on several occasions, programs shown by Hubbard also appeared as part of the WTBS signal available to cable subscribers in Hubbard's markets. It is this overlapping

programming which initially gave rise to the present action.

In this action, Hubbard raises several claims. Each claim generally involves the interpretation and application of section 111 of the Copyright Act. The district court rejected Hubbard's contentions and on a largely stipulated record granted Southern's/Turner's motion for summary judgment. *Hubbard*, 593 F.Supp. at 823. After our own plenary consideration of the legal issues here involved, *see Eastern Microwave, Inc.*, 691 F.2d at 127, we conclude the district court correctly rejected Hubbard's claims, and thus we affirm the dismissal of Hubbard's complaint.

On appeal, Hubbard, with the exception of one issue, raises the same contentions rejected by the district court. First, Hubbard argues that the provisions of section 111 (b), of the Copyright Act, 17 U.S.C. § 111(b), places Southern's activities outside the scope of the compulsory licensing program in general and specifically outside the scope of the carrier exemption. Second, Hubbard asserts that regardless of whether section 111(b) is applicable to this action, Southern's actions are inconsistent with the requirements of and thus Southern cannot qualify for the carrier exemption. Third, Hubbard contends that the purpose and policy underlying the compulsory licensing provisions of section 111 do not support a compulsory license for cable stations carrying the WTBS signal and in fact implicitly prohibit Turner's commercial substitution process. Finally, Hubbard argues that by implication the district court found Turner directly liable for copyright infringement.

[1] In addressing the issues presented, we must constantly bear in mind the underlying goals of the Copyright Act, *see ante* at 397. This is particularly true here be-

cause the issues presented arise in large part from the use of technology perfected after the enactment of the Copyright Act. In such a situation, we "look to the 'common sense' of the statute ..., to its purpose, [and] to the practical consequences of the suggested interpretations ... for what light each inquiry might shed.' " *Eastern Microwave, Inc.*, 691 F.2d at 127 (quoting *New York State Commission on Cable Television v. Federal Communications Commission*, 571 F.2d 95, 98 (2d Cir.), *cert. denied*, 439 U.S. 820, 99 S.Ct. 85, 58 L.Ed.2d 112 (1978). As the Supreme Court recently stated: "When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of [its] basic purpose [, which is to stimulate artistic creativity for the general public good]." *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 104 S.Ct. 774, 783-84, 78 L.Ed. 2d 574 (1984) (quoting *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156, 95 S.Ct. 2040, 2043-44, 45 L.Ed.2d 84 (1975) (footnote omitted)). With this background in mind, we move to the specific contentions raised by Hubbard.

Applicability of Section 111(b)

As an initial argument, Hubbard contends that the carrier exemption of section 111(a)(3) and the compulsory licensing provisions of section 111(c)(1) are inapplicable in this case due to the operation of section 111(b). This section provides that

> [n]otwithstanding the provisions of subsections (a) and (c), the secondary transmission to the public of a primary transmission embodying a performance or

> display of a work is actionable as an act of infringement * * * if the primary transmission is not made for reception by the public at large but is controlled and limited to reception by particular members of the public * * *.

17 U.S.C. § 111(b). At issue here is whether the WTBS microwave signal "is not made for reception by the public at large but is controlled and limited to reception by particular members of the public * * *" *Id.*

Hubbard, in urging the applicability of this section, focuses largely on the method by which the WTBS microwave signal is transmitted. Hubbard argues that because the microwave signal is not transmitted over the air like the UHF signal but rather is transmitted directly to Southern, the microwave transmission by its very nature is not "made for reception by the public at large." *Id.* In so doing, we believe Hubbard misperceives the focus and purpose of section 111(b).

[2] In our view, section 111(b) is not intended to regulate the method of transmission but rather is intended to apply in those situations in which the primary transmitter itself seeks to limit the reception of its signal to "particular members of the public." *Id.* Examples of situations in which section 111(b) would be applicable include among others, closed circuit television, pay television, and pay cable. *See* H.R.Rep. No. 1476, 94th Cong., 2d Sess. 92, *reprinted in* 1976 U.S.Code Cong. & Ad.News at 5707. Central to each of these examples is the primary transmitter's specific intent and actual attempt to narrow the reception of its signal to an identifiable and distinct segment of the general public who generally will either subscribe to or pur-

chase the service provided. Thus, if a secondary transmitter picks up this type of "controlled" signal, section 111(b) protects the primary transmitter and provides it with a remedy against the secondary transmitter even though the secondary transmitter might otherwise fit within the carrier exemption of section 111(a)(3) or the compulsory licensing provision of section 111(c)(1).

[3] Here, Turner's microwave signal, although not available over the air, is in no way controlled or limited by Turner to specific, identifiable recipients. In fact, Turner has no desire to limit the eventual reception of its signal and intends the signal to be available to the general public as a whole. This intent is largely evidenced by the fact that Turner's simultaneously generated UHF signal, which is available over the air and which Hubbard concedes is neither "controlled" nor "limited," contains without exception the identical copyrighted programming material as the WTBS microwave signal. Further, unlike other subscription services, Turner receives no payments either from Southern or from the individual cable television systems. As has always been true, Turner's microwave signal like its UHF signal is transmitted free of charge with Turner deriving its income primarily from the sale of advertising. We reject the applicability of section 111(b) in the present action.

[4] In a related technologically based argument, Hubbard contends that the WTBS microwave signal (retransmitted by Southern and the cable systems) is not protected by the compulsory licensing provisions of section 111 since in its view these provisions are applicable only in situations in which the secondarily transmitted television signal is initially broadcast over the air. In advancing this argu-

ment, Hubbard forgets that "[i]nterpretation of the [Copyright] Act must occur in the real world of telecommunications, not in a vacuum." *Eastern Microwave, Inc.*, 691 F.2d at 132. Hubard's view, if accepted, would largely freeze for section 111 purposes both technological development and implementation. And, by consequence, it would force both primary and secondary transmitters alike to forego available, economically feasible technology. We reject this stand still status quo oriented view of the compulsory licensing provisions.

Sections 111(c) and 111(d) of the Copyright Act provide for the general applicability of the compulsory licensing systems, 17 U.S.C. § 111(c)(1), subject to certain exceptions, *id.* § 111(c)(2)-(4), and compliance requirements, *id.* § 111(d)(1)-(2). At issue in this instance is the general applicability of the compulsory licensing system. The specific exceptions and compliance requirements are not involved.

> The general compulsory licensing provision provides that secondary transmissions to the public by a cable system of a primary transmission made by a broadcast station licensed by the Federal Communications Commission * * * shall be subject to compulsory licensing * * *.

Id. § 111(c)(1). Here, it is undisputed that WTBS is a "broadcast station licensed by the [FCC]." *Id.* Further, if the microwave signal is a "primary transmission," there is no question that its retransmission by cable systems is a "secondary transmission to the public." *Id.; See also id.* § 111(f) (defining "secondary transmission" in terms of the "further transmitting of a primary transmission"); *id.* § 101 (defining "publicly" in terms of transmitting copy-

righted works "to the public"). Rather, the issue in this case is whether the WTBS microwave signal constitutes a "primary transmission."

The Copyright Act defines a primary transmission as a "transmission made to the public * * * [that is] further transmitted by the secondary transmission service * * *" *Id.* § 111(f). The resulting question then becomes whether the WTBS microwave signal is a "transmission made to the public." While the term "transmission" is not itself defined in the Copyright Act, the term "transmit" is defined. *Id.* § 101. And, with respect to this definition, Congress has expressly stated that

> [t]he definition of "transmit"—to communicate a performance or display "by any device or process whereby images or sound[s] are received beyond the place from which they are sent"—is broad enough to include *all conceivable forms and combinations of wired or wireless communications media, including but by no means limited to radio and television broadcasting as we know them. Each and every method by which the images or sounds comprising a performance or display are picked up and conveyed is a "transmission,"* and if the transmission reaches the public *in any form*, [that transmission constitutes a public performance or display] within the scope of clauses (4) or (5) of section 106.

H.R.Rep. No. 1476, 94th Cong., 2d Sess. 64, *reprinted in* 1976 U.S.Code Cong. & Ad. News at 5678 (quoting 17 U.S.C. § 101) (emphasis added). Further, Congress specifically anticipated the transmission of other than over the air signals when it defined the term "cable system" (the

very entity subject to the compulsory licensing provisions) as a "facility * * * that * * * receives *signals transmitted or programs broadcast by* * * * television broadcast stations * * * and makes secondary transmissions of such *signals or programs* * * * *to subscribing members of the public* * * *" 17 U.S.C. § 111(f) (emphasis added).

[5] These and other congressional statements, *see, e.g.*, H.R.Rep. No. 1476, 94th Cong., 2d Sess. 62-65, *reprinted in* 1976 U.S.Code Cong. & Ad.News at 5676-78, convince us that the WTBS microwave signal, like its UHF signal, constitutes a "transmission made to the public," 17 U.S.C. § 111(f), as intended by Congress. Thus, stated differently, the WTBS microwave signal constitutes a "primary transmission." Consequently, the compulsory licensing system is generally applicable to the WTBS microwave signal and the fact that this signal is not broadcast over the air is of no consequence.

Availability of the Section 111(a)(3) Carrier Exemption

We next address the issue of whether Southern qualifies for the carrier exemption of section 111, 17 U.S.C. § 111 (a)(3). To qualify for the exemption, five elements must be established:

1. There must be a "secondary transmission of a primary transmission";

2. made by a "carrier";

3. that has no "direct or indirect control over the content or selection of the primary transmission";

4. that has no "direct or indirect control over the * * * particular recipients of the secondary transmission"; and

5. "whose activities with respect to the secondary

transmission consist solely of providing wires, cables, or other communications channels for the use of others."

Id. If any of these five elements is not present, Southern is not exempt and will be liable for the unauthorized public performance of copyrighted material. The district court properly identified these five elements, *Hubbard*, 593 F. Supp. at 816. Upon analysis the district court also concluded that Southern met each of the five elements of the carrier exemption and thus was protected by the carrier exemption, *id.* at 816-21.

[6] Given our prior discussion concerning the nature of the WTBS microwave signal, it is clear that Southern's retransmission of the WTBS microwave signal constitutes the "secondary transmission of a primary transmission." 17 U.S.C. § 111(a)(3). Thus, the first element of the carrier exemption has been established. Further, with respect to elements two, four, and five of the carrier exemption, we conclude the district court properly addressed these elements and adopt the well reasoned district court opinion to that extent. *Hubbard*, 593 F.Supp. at 817-18, 820-21; *see also Eastern Microwave, Inc.*, 691 F.2d at 129-32.

We turn then to the third element of the carrier exemption which requires Southern to exert no "direct or indirect control over the content or selection of the primary transmission." *Id.* We look first to the "content" component of this third element.

Other than some inconsequentially minor programming suggestions, it is essentially undisputed that Southern does not directly control either the programming or nonprogramming content of the WTBS signal. Rather, the focus of Hubbard's complaint is on the active cooperation between

Southern and Turner which Hubbard contends evidences Southern's indirect control over the "content" of the WTBS signal. Specifically, Hubbard argues that the establishment of a microwave link and the consistent retransmission of the WTBS microwave signal enables Turner to substitute commercials and constitutes the indirect control of content by Southern. We disagree.

[7] The microwave link established between Southern and WTBS certainly facilitates Turner's commercial substitution process. However, from the perspective of Southern, the motivating force behind the establishment of the microwave link was its desire to provide its customers with a better quality, more reliable WTBS signal. This legitimate business interest on the part of Southern is entirely consistent with the goal of the Copyright Act of making broadly available and allowing the public to benefit from the copyrighted works carried on television signals. *See Capital Cities Cables, Inc.*, 104 S.Ct. at 2706; *see also Sony Corp. of America*, 104 S.Ct. at 783. The FCC itself approved the establishment of the direct microwave connection between Southern and WTBS.

Additionally, it is clear from the record that Southern exercises no control over the selection and broadcast of the particular programming or nonprogramming material transmitted by WTBS. These decisions are made entirely by Turner. And, to the extent that commercial substitution does occur, Turner again is entirely responsible for deciding what will be substituted and for making the actual substitution. Finally, upon receipt of the WTBS signal, Southern retransmits that signal in its entirety with no deletion or modification. We believe Southern exercises neither direct or indirect control over the content of the WTBS signal.

[8] We conclude further that Southern Satellite does not impermissibly control the "selection" of the primary transmission. *See* 17 U.S.C. § 111(a)(3). Initially, to the extent Southern chooses to retransmit the WTBS signal rather than the signal of another broadcast station, this case is indistinguishable from the Second Circuit's decision in *Eastern Microwave, Inc.*, 691 F.2d 125. In that case, the court concluded that

> Technical restrictions which forced EMI to make an initial, one-time determination to retransmit the signals of a particular station, whatever the content of those signals, do not evidence the "control over the * * * selection of the primary transmission" intended to be precluded under Section 111(a)(3).

Id. at 130. We agree with and adopt the Second Circuit's reasoning on this narrow issue.

Hubbard contends, however, that *Eastern Microwave, Inc.* is distinguishable from this case because Southern, in addition to making the initial choice to retransmit WTBS, makes a further choice by then selecting for retransmission the microwave signal rather than the UHF signal. It is this second selection that Hubbard asserts removes Southern from the protection of the carrier exemption.

In developing its position, Hubbard necessarily focuses on the operation of the presence detector. As previously noted, once received by Southern, both the microwave signal and the UHF signal are sent through the presence detector. The presence detector, however, makes no comparison of the two signals but rather automatically and at all times selects the microwave signal. Only if the microwave signal is interrupted or becomes undetectable does the pres-

ence detector, again automatically, select the UHF signal. The technological ability to shift to the UHF signal if necessary prevents disruption of Southern's retransmission and helps insure that the viewing public will at all times receive WTBS programming.

Further, as Hubbard now concedes, "WTBS [rather than Southern] owns and operates the switch that can interrupt and stop the transmission of the microwave signal, causing the * * * presence detector to choose the UHF signal." *Hubbard,* 593 F.Supp. at 819. Finally, with respect to the WTBS signal emerging from the presence detector, as previously stated, it is clear that Southern then retransmits without deletion or modification exactly what and all of what it receives.

We conclude no impermissible selection occurs under the facts of this case. Here, the decision to create a direct microwave link and employ a presence detector has enabled Southern to provide a better quality, more dependable television signal to the viewing public. Once set, Southern exercises no control over the operation of the presence detector. The presence detector is self-regulating.

At bottom, with respect to both the "content" and the "selection" issues, Hubbard contends that to remain exempt, Southern must purposely forego available and affordable technology that, in addition to being economically beneficial, enables Southern to provide a better quality product to its customers. While this technology may facilitate Turner's commercial substitution process, this facilitation, in and of itself, is insufficient to disqualify Southern from the carrier exemption. We believe Southern Satellite does not impermissibly control the content or selection of the secondary transmission of the WTBS signal.

This conclusion, coupled with our adoption of the district court's analysis, places Southern within the scope of the carrier exemption. Thus, section 111(a)(3) provides Hubbard with no basis for establishing copyright liability on the part of Southern Satellite.

Turner's Commercial Substitution and the Compulsory Licensing Program

As a third theory of liability, Hubbard asserts that the commercial substitution process undertaken by Turner and facilitated by Southern impermissibly alters the careful balance achieved by Congress through the compulsory licensing system. Specifically, Hubbard focuses on section 111 (c)(3) which provides that the compulsory license will not be applicable if

> the content of the particular program * * * or any commercial advertising * * * transmitted by the primary transmitter * * * is in any way willfully altered by the cable system * * *

17 U.S.C. § 111(c)(3). Here, Hubbard argues that Turner, by substituting commercials at the primary transmission stage, accomplishes indirectly what Congress has concluded cable systems cannot do directly. As a result, Hubbard contends that cable systems carrying WTBS cannot qualify for the compulsory license of section 111(c)(1) with respect to the WTBS transmission. We disagree.

In adopting section 111(c)(3), Congress concluded that to allow cable television systems to alter the primary transmission by substituting commercials would

> significantly alter[ ] the basic nature of the cable re-

> transmission service, and make[ ] its function similar to that of a broadcaster. Further, the placement of substitute advertising in a program by a cable system on a "local" signal harms the advertiser and, in turn, the copyright owner, whose compensation for the work is directly related to the size of the audience that the advertiser's message is calculated to reach. On a "distant" signal, the placement of substitute advertising harms the local broadcaster in the distant market because the cable system is then competing for local broadcasting dollars without having comparable programming costs.

H.R.Rep. No. 1476, 94th Cong., 2d Sess. at 93-94. *reprinted in* 1976 U.S.Code Cong. & Ad.News at 5708. Consequently, Congress "attempted broadly to proscribe the availability of the compulsory license if a cable system substitutes commercial messages." *Id.* at 94, *reprinted in* 1976 U.S.Code Cong. & Ad.News at 5708.

[9] Congress, in forbidding commercial substitution by cable systems, sought to ensure the competitive compatibility of the cable system and the local broadcaster. Cable systems, when retransmitting local signals, would retransmit exactly what was received and in so doing would neither undercut the local broadcaster's ability to generate local advertising revenues nor jeopardize the ability of creators of programming to receive a fair return for their product based upon the size of the audience that the advertiser's message was calculated to reach. *Id.* In other words, the status quo relationship between local broadcasters and copyright holders would be protected and facilitated. With respect to distant signal retransmission, Congress sought to ensure that cable systems were not allowed,

while claiming protection of the compulsory license, to compete for local advertising dollars without having to bear comparable programming costs. *Id.*

[10] As an initial matter, we emphasize that there has been no assertion on the part of Hubbard that either Southern or any cable system carrying the WTBS signal has ever substituted or in fact has ever attempted to substitute commercials originally placed on the WTBS signal by Turner. Rather, both Southern and the cable systems retransmit intact any commercials they receive from Turner on the WTBS signal. Thus, under the literal language of section 111(c)(3), no infringement based upon commercial substitution has occurred.

[11] Additionally, we conclude that none of the concerns raised by Congress in adopting section 111(c)(3) are implicated by Turner's practices. WTBS, in placing only national advertising on the microwave signal, seeks to and in fact can economically address only the national advertising market. Turner cannot effectively address the local advertising markets served by Hubbard. Thus, Turner does not compete with Hubbard for local advertising dollars.

Further, to the extent Turner and Hubbard compete for national advertising dollars, that competition will exist regardless of Turner's current practices since even absent the microwave signal, Turner's UHF signal will continue to reach a national market and carry national advertising. And, unlike a cable system that substitutes commercials without bearing programming costs, Turner has the same types of programming costs as Hubbard.

Finally, we also conclude that Turner's development of two separate WTBS signals has no adverse impact on the

interests of the copyright holders. These individuals or companies, when contracting with Turner, know that WTBS signals will be available nationwide as well as locally and are entirely free to take those steps necessary to assure that they are compensated accordingly. At bottom, no copyright holder is deceived by the extent of Turner's market or the commercial content of the signals; no advertiser reaches a smaller market than anticipated; and no local broadcaster is forced to compete with Turner on any greater level than would exist absent Turner's transmission of two television signals.

Turner's Direct Liability

[12] As a final matter, we decline to consider Hubbard's contention that the district court by implication found Turner directly liable for copyright infringement. The district court did not specifically address this issue, and a careful review of the district court record reveals that this theory of liability was not asserted in the district court. Because no issue of Turner's direct liability was presented below, it is not now properly before this court, and we will not consider it for the first time on appeal. *Kriegesmann v. Barry-Wehmiller Co.*, 739 F.2d 357, 358 (8th Cir.), *cert. denied*, —— U.S. ——, 105 S.Ct. 512, 83 L.Ed.2d 402 (1984).

Conclusion

We believe section 111 contains no provision under which Southern Satellite or Turner is liable for copyright infringement. First, section 111(b) is inapplicable to this situation. Further, Southern Satellite falls within the car-

rier exemption of section 111(a)(3). Finally, we conclude that the policies underlying the Copyright Act, including compensating copyright holders fairly for the retransmission of their programs, are not adversely affected by Turner's commercial substitution process.

We affirm the district court's dismissal of Hubbard's action.

UNITED STATES COURT OF APPEALS
FOR THE EIGHTH CIRCUIT

No. 84-5173-MN

Hubbard Broadcasting, Inc., etc.,

Appellant,

vs.

Southern Satellite Systems, Inc., etc., et al.,

Appellees.

Appeal from the United States District Court for the District of Minnesota

Appellant's petition for rehearing has been considered by the Court and is hereby denied.

December 17, 1985

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17 U.S.C.A. § 101. Definitions

"Copyright owner", with respect to any one of the exclusive rights comprised in a copyright, refers to the owner of that particular right.

* * *

To "perform" a work means to recite, render, play, dance, or act it, either directly or by means of any device or process or, in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible.

* * *

To perform or display a work "publicly" means—

(1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or

(2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

17 U.S.C.A. § 111. Limitations on exclusive rights. Secondary transmissions.

(a) Certain Secondary Transmissions Exempted. The secondary transmission of a primary transmission embodying a performance or display of a work is not an infringement of copyright if

(1) the secondary transmission is not made by a cable system, and consists entirely of the relaying, by the management of a hotel, apartment house, or similar establishment, of signals transmitted by a broadcast station licensed by the Federal Communications Commission, within the local service area of such

station, to the private lodgings of guests or residents of such establishment, and no direct charge is made to see or hear the secondary transmission; or

(2) The secondary transmission is made solely for the purpose and under the conditions specified by clause (2) of section 110; or

(3) The secondary transmission is made by any carrier who has no direct or indirect control over the content or selection of the primary transmission or over the particular recipients of the secondary transmission, and whose activities with respect to the secondary transmission consist solely of providing wires, cables, or other communications channels for the use of others: Provided, That the provisions of this clause extend only to the activities of said carrier with respect to secondary transmissions and do not exempt from liability the activities of others with respect to their own primary or secondary transmissions; or

(4) The secondary transmission is not made by a cable system but is made by a governmental body, or other nonprofit organization, without any purpose of direct of indirect commercial advantage, and without charge to the recipients of the secondary transmission other than assessments necessary to defray the actual and reasonable costs of maintaining and operating the secondary transmission service.

(b) Secondary Transmission of Primary Transmission to Controlled Group. Notwithstanding the provisions of subsections (a) and (c). the secondary transmission to the

public of a primary transmission embodying a performance or display of a work is actionable as an act of infringement under section 501, and is fully subject to the remedies provided by sections 502 through 506 and 509, if the primary transmission is not made for reception by the public at large but is controlled and limited to reception by particular members of the public. Provided, however, That such secondary transmission is not actionable as an act of infringement if

(1) the primary transmission is made by a broadcast station licensed by the Federal Communications Commission; and

(2) the carriage of the signals comprising the secondary transmission is required under the rules, regulations, or authorizations of the Federal Communications Commission; and

(3) the signal of the primary transmitter is not altered or changed in any way by the secondary transmitter.

(c) Secondary Transmissions by Cable Systems.

(1) Subject to the provisions of clauses (2), (3), and (4) of this subsection, secondary transmissions to the public by a cable system of a primary transmission made by a broadcast station licensed by the Federal Communications Commission or by an appropriate governmental authority of Canada or Mexico and embodying a performance or display of a work shall be subject to compulsory licensing upon compliance with the requirements of subsection (d) where the carriage of the signals comprising the secondary transmission is permissible under the rules,

regulations, or authorizations of the Federal Communications Commission.

(2) Notwithstanding the provisions of clause (1) of this subsection, the willful or repeated secondary transmission to the public by a cable system of a primary transmission made by a broadcast station licensed by the Federal Communications Commission or by an appropriate governmental authority of Canada or Mexico and embodying a performance or display of a work is actionable as an act of infringement under section 501, and is fully subject to the remedies provided by sections 502 through 506 and 509, in the following cases:

(A) where the carriage of the signals comprising the secondary transmission is not permissible under the rules, regulations, or authorizations of the Federal Communications Commission; or

(B) where the cable system has not recorded the notice specified by subsection (d) and deposited the statement of account and royalty fee required by subsection (d).

Notwithstanding the provisions of clause (1) of this subsection and subject to the provisions of subsection (e) of this section, the secondary transmission to the public by a cable system of a primary transmission made by a broadcast station licensed by the Federal Communications Commission or by an appropriate governmental authority of Canada or Mexico and embodying a performance or display of a work is actionable as an act of infringement under section 501, and is fully subject to the remedies provided by sections 502 through 506 and sections 509 and

510, if the content of the particular program in which the performance or display is embodied, or any commercial advertising or station announcements transmitted by the primary transmitter during, or immediately before or after, the transmission of such program, is in any way willfully altered by the cable system through changes, deletions, or additions, except for the alteration, deletion, or substitution of commercial advertisements performed by those engaged in television commercial advertising market research: Provided, That the research company has obtained the prior consent of the advertiser who has purchased the original commercial advertisement, the television station broadcasting that commercial advertisement, and the cable system performing the secondary transmissions: And provided further, That such commercial alteration, deletion, or substitution is not performed for the purpose of deriving income from the sale of that commercial time.

(4) Notwithstanding the provisions of clause (1) of this subsection, the secondary transmission to the public by a cable system of a primary transmission made by a broadcast station licensed by an appropriate governmental authority of Canada or Mexico and embodying a performance or display of a work is actionable as an act of infringement under section 501, and is fully subject to the remedies provided by sections 502 through 506 and section 509, if (A) with respect to Canadian signals, the community of the cable system is located more than 150 miles from the United States-Canadian border and is also located south of the forty-second parallel of latitude, or (B) with respect to Mexican signals, the secondary transmis-

sion is made by a cable system which received the primary transmission by means other than direct interception of a free space radio wave emitted by such broadcast television station, unless prior to April 15, 1976, such cable system was actually carrying, or was specifically authorized to carry, the signal of such foreign station on the system pursuant to the rules, regulations, or authorizations of the Federal Communications Commission.

(d) Compulsory License for Secondary Transmissions by Cable Systems.

(1) For any secondary transmission to be subject to compulsory licensing under subsection (c), the cable system shall, at least one month before the date of the commencement of operations of the cable system or within one hundred and eighty days after the enactment of this Act, whichever is later, and thereafter within thirty days after each occasion on which the ownership or control or the signal carriage complement of the cable system changes, record in the Copyright Office a notice including a statement of the identity and address of the person who owns or operates the secondary transmission service or has power to exercise primary control over it, together with the name and location of the primary transmitter or primary transmitters whose signals are regularly carried by the cable system, and thereafter, from time to time, such further information as the Register of Copyrights, after consultation with the Copyright Royalty Tribunal (if and when the Tribunal has been constituted), shall prescribe by regulation to carry out the purpose of this clause.

(2) A cable system whose secondary transmissions have been subject to compulsory licensing under subsec-

tion (c) shall, on a semiannual basis, deposit with the Register of Copyrights, in accordance with requirements that the Register shall, after consultation with the Copyright Royalty Tribunal (if and when the Tribunal has been constituted), prescribe by regulation

(A) a statement of account, covering the six months next preceding, specifying the number of channels on which the cable system made secondary transmissions to its subscribers, the names and locations of all primary transmitters whose transmissions were further transmitted by the cable system, the total number of subscribers, the gross amounts paid to the cable system for the basic service of providing secondary transmissions of primary broadcast transmitters, and such other data as the Register of Copyrights may, after consultation with the Copyright Royalty Tribunal (if and when the Tribunal has been constituted), from time to time prescribed by regulation. Such statement shall also include a special statement of account covering any nonnetwork television programming that was carried by the cable system in whole or in part beyond the local service area of the primary transmitter, under rules, regulations, or authorizations of the Federal Communications Commission permitting the substitution or addition of signals under certain circumstances, together with logs showing the times, dates, stations, and programs involved in such substituted or added carriage; and

(B) except in the case of a cable system whose royalty is specified in subclause (C) or (D), a total royalty fee for the period covered by the statement, computed on the

basis of specified percentages of the gross receipts from subscribers to the cable service during said period for the basic service of providing secondary transmissions of primary broadcast transmitters, as follows:

(i) 0.675 of 1 per centum of such gross receipts for the privilege of further transmitting any nonnetwork programming of a primary transmitter in whole or in part beyond the local service area of such primary transmitter, such amount to be applied against the fee, if any, payable pursuant to paragraphs (ii) through (iv);

(ii) 0.675 of 1 per centum of such gross receipts for the first distant signal equivalent;

(iii) 0.425 of 1 per centum of such gross receipts for each of the second, third, and fourth distant signal equivalents;

(iv) 0.2 of 1 per centum of such gross receipts for the fifth distant signal equivalent and each additional distant signal equivalent thereafter; and

in computing the amounts payable under paragraph (ii) through (iv), above, any fraction of a distant signal equivalent shall be computed at its fractional value and, in the case of any cable system located partly within and partly without the local service area of a primary transmitter, gross receipts shall be limited to those gross receipts derived from subscribers located without the local service area of such primary transmitter; and

(C) if the actual gross receipts paid by subscribers to a cable system for the period covered by the statement

for the basic service of providing secondary transmissions of primary broadcast transmitters total $80,000 or less, gross receipts of the cable system for the purpose of this subclause shall be computed by subtracting from such actual gross receipts the amount by which $80,000 exceeds such actual gross receipts, except that in no case shall a cable system's gross receipts be reduced to less than $3,000. The royalty fee payable under this subclause shall be 0.5 of 1 per centum, regardless of the number of distant signal equivalents, if any; and

(D) if the actual gross receipts paid by subscribers to a cable system for the period covered by the statement, for the basic service of providing secondary transmissions of primary broadcast transmitters, are more than $80,000 but less than $160,000, the royalty fee payable under this subclause shall be (i) 0.5 of 1 per centum of any gross receipts up to $80,000; and (ii) 1 per centum of any gross receipts in excess of $80,000 but less than $160,000, regardless of the number of distant signal equivalents, if any.

(3) The Register of Copyrights shall receive all fees deposited under this section and, after deducting the reasonable costs incurred by the Copyright Office under this section, shall deposit the balance in the Treasury of the United States, in such manner as the Secretary of the Treasury directs. All funds held by the Secretary of the Treasury shall be invested in interest-bearing United States securities for later distribution with interest by the Copyright Royalty Tribunal as provided by this title. The Register shall submit to the Copyright Royalty Tribunal, on a

semiannual basis, a compilation of all statements of account covering the relevant six-month period provided by clause (2) of this subsection.

(4) The royalty fees thus deposited shall, in accordance with the procedures provided by clause (5), be distributed to those among the following copyright owners who claim that their works were the subject of secondary transmissions by cable systems during the relevant semiannual period:

(A) any such owner whose work was included in a secondary transmission made by a cable system of a nonnetwork television program in whole or in part beyond the local service area of the primary transmitter; and

(B) any such owner whose work was included in a secondary transmission identified in a special statement of account deposited under clause (2) (A); and

(C) any such owner whose work was included in nonnetwork programming consisting exclusively of aural signals carried by a cable system in whole or in part beyond the local service area of the primary transmitter of such programs.

(5) The royalty fees thus deposited shall be distributed in accordance with the following procedures:

(A) During the month of July in each year, every person claiming to be entitled to compulsory license fees for secondary transmissions shall file a claim with the Copyright Royalty Tribunal, in accordance with requirements that the Tribunal shall prescribe

by regulation. Notwithstanding any provisions of the antitrust laws, for purposes of this clause any claimants may agree among themselves as to the proportionate division of compulsory licensing fees among them, may lump their claims together and file them jointly or as a single claim, or may designate a common agent to receive payment on their behalf.

(B) After the first day of August of each year, the Copyright Royalty Tribunal shall determine whether there exists a controversy concerning the distribution of royalty fees. If the Tribunal determines that no such controversy exists, it shall, after deducting its reasonable administrative costs under this section, distribute such fees to the copyright owners entitled, or to their designated agents. If the Tribunal finds the existence of a controversy, it shall, pursuant to chapter 8 of this title, conduct a proceeding to determine the distributions of royalty fees.

(C) During the pendency of any proceeding under this subsection, the Copyright Royalty Tribunal shall withhold from distribution an amount sufficient to satisfy all claims with respect to which a controversy exists, but shall have discretion to proceed to distribute any amounts that are not in controversy.

(e) Nonsimultaneous Secondary Transmissions by Cable Systems.

(1) Notwithstanding those provisions of the second paragraph of subsection (f) relating to nonsimultaneous secondary transmissions by a cable system, any such trans-

missions are actionable as an act of infringement under section 501, and are fully subject to the remedies provided by sections 502 through 506 and sections 509 and 510, unless

(A) the program on the videotape is transmitted no more than one time to the cable system's subscribers; and

(B) the copyrighted program, episode, or motion picture video tape, including the commercials contained within such program, episode, or picture, is transmitted without deletion or editing; and

(C) an owner or officer of the cable system (i) prevents the duplication of the videotape while in the possession of the system, ((ii) prevents unauthorized duplication while in the possession of the facility making the videotape for the system if the system owns or controls the facility, or takes reasonable precautions to prevent such duplication if it does not own or control the facility, (iii) takes adequate precautions to prevent duplication while the tape is being transported, and (iv) subject to clause (2), erases or destroys, or causes the erasure or destruction of, the videotape; and

(D) within forty-five days after the end of each calendar quarter, an owner or officer of the cable system executes an affidavit attesting (i) to the steps and precautions taken to prevent duplication of the videotape, and (ii) subject to clause (2), to the erasure or destruction of all videotapes made or used during such quarter; and

(E) such owner or officer places or causes each such affidavit, and affidavits received pursuant to clause (2) (C), to be placed in a file, open to public inspection, at such system's main office in the community where the transmission is made or in the nearest community where such system maintains an office; and

(F) the nonsimultaneous transmission is one that the cable system would be authorized to transmit under the rules, regulations, and authorizations of the Federal Communications Commission in effect at the time of the nonsimultaneous transmission if the transmission had been made simultaneously, except that this subclause shall not apply to inadvertent or accidental transmissions.

(2) If a cable system transfers to any person a videotape of a program nonsimultaneously transmitted by it, such transfer is actionable as an act of infringement under section 501, and is fully subject to the remedies provided by sections 502 through 506 and 509, except that pursuant to a written, nonprofit contract providing for the equitable showing of the costs of such videotape and its transfer, a videotape nonsimultaneously transmitted by it, in accordance with clause (1), may be transferred by one cable system in Alaska to another system in Alaska, by one cable system in Hawaii permitted to make such nonsimultaneous transmissions to another such cable system in Hawaii, or by one cable system in Guam, the Northern Mariana Islands, or the Trust Territory of the Pacific Islands, to another cable system in any of those three territories, if

(A) each such contract is available for public inspection in the offices of the cable systems involved, and a copy of such contract is filed, within thirty days after such contract is entered into, with the Copyright Office (which Office shall make each such contract available for public inspection); and

(B) the cable system to which the videotape is transferred complies with clause (1) (A), (B), (C) (i), (iii), and (iv), and (D) through (F); and

(C) such system provides a copy of the affidavit required to be made in accordance with clause (1) (D) to each cable system making a previous nonsimultaneous transmission of the same videotape.

(3) This subsection shall not be construed to supersede the exclusivity protection provisions of any existing agreement, or any such agreement hereafter entered into, between a cable system and a television broadcast station in the area in which the cable system is located, or a network with which such station is affiliated.

(4) As used in this subsection, the term "videotape", and each of its variant forms, means the reproduction of the images and sounds of a program or programs broadcast by a television broadcast station licensed by the Federal Communications Commission, regardless of the nature of the material objects, such as tapes or films, in which the reproduction is embodied.

(f) Definitions. As used in this section, the following terms and their variant forms mean the following:

A "primary transmission" is a transmission made to the public by the transmitting facility whose signals are be-

ing received and further transmitted by the secondary transmission service, regardless of where or when the performance or display was first transmitted.

A "secondary transmission" is the further transmitting of a primary transmission simultaneously with the primary transmission, or nonsimultaneously with the primary tranmission if by a "cable system" not located in whole or in part within the boundary of the forty-eight contiguous States, Hawaii, or Puerto Rico: Provided, however, That a nonsimultaneous further transmission by a cable system located in Hawaii of a primary transmission shall be deemed to be a secondary transmission if the carriage of the television broadcast signal comprising such further transmission is permissible under the rules, regulations, or authorizations of the Federal Communications Commission.

A "cable system" is a facility, located in any State, Territory, Trust Territory, or Possession, that in whole or in part receives signals transmitted or programs broadcast by one or more television broadcast stations licensed by the Federal Communications Commission, and makes secondary transmissions of such signals or programs by wires, cables, or other communications channels to subscribing members of the public who pay for such service. For purposes of determining the royalty fee under subsection (d) (2), two or more cable systems in contiguous communities under common ownership or control or operating from one headend shall be considered as one system.

The "local service area of a primary transmitter" in the case of a television broadcast station, comprises the area in which such station is entitled to insist upon its signal being retransmitted by a cable system pursuant to the rules

regulations, and authorizations of the Federal Communications Commission in effect on April 15, 1976, or in the case of a television broadcast station licensed by an appropriate governmental authority of Canada or Mexico, the area in which it would be entitled to insist upon its signal being retransmitted if it were a television broadcast station subject to such rules, regulations, and authorizations. The "local service area of a primary transmitter," in the case of a radio broadcast station, comprises the primary service area of such station pursuant to the rules and regulations of the Federal Communications Commission.

A "distant signal equivalent" is the value assigned to the secondary transmission of any nonnetwork television programming carried by a cable system in whole or in part beyond the local service area of the primary transmitter of such programming. It is computed by assigning a value of one to each independent station and a value of one-quarter to each network station and noncommercial educational station for the nonnetwork programming so carried pursuant to the rules, regulations, and authorizations of the Federal Communications Commission The foregoing values for independent, network, and noncommercial educational stations are subject, however, to the following exceptions and limitations. Where the rules and regulations of the Federal Communications Commission require a cable system to omit the further transmission of a particular program and such rules and regulations also permit the substitution of another program embodying a performance or display of a work in place of the omitted transmission, or where such rules and regulations in effect on the date of enactment of this Act permit a cable system,

at its election, to effect such deletion and substitution of a nonlive program or to carry additional programs not transmitted by primary transmitters within whose local service area the cable system is located, no value shall be assigned for the substituted or additional program; where the rules, regulations, or authorizations of the Federal Communications Commission in effect on the date of enactment of this Act permit a cable system, at its election, to omit the further transmission of a particular program and such rules, regulations or authorizations also permit the substitution of another program embodying a performance display of a work in place of the omitted transmission, the value assigned for the substituted or additional program shall be, in the case of a live program, the value of one full distant signal equivalent multiplied by a fraction that has as its numerator the number of days in the year in which such substitution occurs and as its denominator the number of days in the year. In the case of a station carried pursuant to the late-night or specialty programming rules of the Federal Communications Commission, or a station carried on a part-time basis where full-time carriage is not possible because the cable system lacks the activated channel capacity to retransmit on a full-time basis all signals which it is authorized to carry, the values for independent, network, and noncommercial educational stations set forth above, as the case may be, shall be multiplied by a fraction which is equal to the ratio of the broadcast hours of such station carried by the cable system to the total broadcast hours of the station.

A "network station" is a television broadcast station that is owned or operated by, or affiliated with, one or more of the television networks in the United States pro-

viding nationwide transmissions, and that transmits a substantial part of the programming supplied by such networks for a substantial part of that station's typical broadcast day.

An "independent station" is a commercial television broadcast station other than a network station.

A "noncommercial educational station" is a television station that is a noncommercial educational broadcast station as defined in section 397 of title 47.

17 U.S.C.A. § 106. Exclusive rights in copyrighted works.

Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

* * *

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; * * *

17 U.S.C.A. § 501. Infringement of copyright.

(a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118, or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright.

(b) The legal or beneficial owner of an exclusive right under a copyright is entitled, subject to the requirements of sections 205(d) and 411, to institute an action for any infringement of that particular right committed while he or she is the owner of it. The court may require such owner to

serve written notice of the action with a copy of the complaint upon any person shown, by the records of the Copyright Office or otherwise, to have or claim an interest in the copyright, and shall require that such notice be served upon any person whose interest is likely to be affected by a decision in the case. The court may require the joinder, and shall permit the intervention, of any person having or claiming an interest in the copyright.

House of Representatives Report No. 94-1476 94th Cong., 2d Sess., (1976)

SECTION 111. SECONDARY TRANSMISSIONS

Introduction and general summary

The complex and economically important problem of "secondary transmissions" is considered in section 111. For the most part, the section is directed at the operation of cable television systems and the terms and conditions of their liability for the retransmission of copyrighted works. However, other forms of secondary transmissions are also considered, including apartment house and hotel systems, wired instructional systems, common carriers, nonprofit "boosters" and translators, and secondary transmissions of primary transmissions to controlled groups.

Cable television systems are commercial subscription services that pick up broadcasts of programs originated by others and retransmit them to paying subscribers. A typical system consists of a central antenna which receives and am-

plifies television signals and a network of cables through which the signals are transmitted to the receiving sets of individual subscribers. In addition to an installation charge, the subscribers pay a monthly charge for the basic service averaging about six dollars. A large number of these systems provide automated programming. A growing number of CATV systems also originate programs, such as movies and sports, and charge additional fees for this service (pay-cable).

The number of cable systems has grown very rapidly since their introduction in 1950, and now total about 3,450 operating systems, servicing 7,700 communities. Systems currently in operation reach about 10.8 million homes. It is reported that the 1975 total subscriber revenues of the cable industry were approximately $770 million.

Pursuant to two decisions of the Supreme Court *(Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390 (1968),[5] and *Teleprompter Corp. v. CBS, Inc.*, 415 U.S. 394 (1974),[6] under the 1909 copyright law, the cable television industry has not been paying copyright royalties for its retransmission of over-the-air broadcast signals. Both decisions urged the Congress, however, to consider and determine the scope and extent of such liability in the pending revision bill.

The difficult problem of determining the copyright liability of cable television systems has been before the Congress since 1965. In 1967, this Committee sought to address and resolve the issues in H.R. 2512, an early version

[5]88 S.Ct. 2084, 20 L.Ed.2d 1176, rehearing denied 89 S.Ct. 85, 393 U.S. 902, 21 L.Ed.2d 190.
[6]94 S.Ct. 1129, 39 L.Ed.2d 415.

of the general revision bill (see H.R. Rep. No. 83, 90th Cong., 1st Sess.). However, largely because of the cable-copyright impasse, the bill died in the Senate.

The history of the attempts to find a solution to the problem since 1967 has been explored thoroughly in the voluminous hearings and testimony on the general revision bill, and has also been succinctly summarized by the Register of Copyrights in her Second Supplementary Report, Chapter V.

The Committee now has before it the Senate bill which contains a series of detailed and complex provisions which attempt to resolve the question of the copyright liability of cable television systems. After extensive consideration of the Senate bill, the arguments made during and after the hearings, and of the issues involved, this Committee has also concluded that there is no simple answer to the cable-copyright controversy. In particular, any statutory scheme that imposes copyright liability on cable television systems must take account of the intricate and complicated rules and regulations adopted by the Federal Communications Commission to govern the cable television industry. While the Committee has carefully avoided including in the bill any provisions which would interfere with the FCC's rules or which might be characterized as affecting "communications policy", the Committee has been cognizant of the interplay between the copyright and the communications elements of the legislation.

We would, therefore, caution the Federal Communications Commission, and others who make determinations concerning communications policy, not to rely upon an action of this Committee as a basis for any significant changes in the delicate balance of regulation in areas

where the Congress has not resolved the issue. Specifically, we would urge the Federal Communications Commission to understand that it was not the intent of this bill to touch on issues such as pay cable regulation or increased use of imported distant signals. These matters are ones of communications policy and should be left to the appropriate committees in the Congress for resolution.

In general, the Committee believes that cable systems are commercial enterprises whose basic retransmission operations are based on the carriage of copyrighted program material and that copyright royalties should be paid by cable operators to the creators of such programs. The Committee recognizes, however, that it would be impractical and unduly burdensome to require every cable system to negotiate with every copyright owner whose work was retransmitted by a cable system. Accordingly, the Committee has determined to maintain the basic principle of the Senate bill to establish a compulsory copyright license for the retransmission of those over-the-air broadcast signals that a cable system is authorized to carry pursuant to the rules and regulations of the FCC.

The compulsory license is conditioned, however, on certain requirements and limitations. These include compliance with reporting requirements, payment of the royalty fees established in the bill, a ban on the substitution or deletion of commercial advertising, and geographic limits on the compulsory license for copyrighted programs broadcast by Canadian or Mexican stations. Failure to comply with these requirements and limitations subjects a cable system to a suit for copyright infringement and the remedies provided under the bill for such actions.

In setting a royalty fee schedule for the compulsory

license, the Committee determined that the initial schedule should be established in the bill. It recognized, however, that adjustments to the schedule would be required from time to time. Accordingly, the Copyright Royalty Commission, established in chapter 8, is empowered to make the adjustments in the initial rates, at specified times, based on standards and conditions set forth in the bill.

In setting an initial fee schedule, the Senate bill based the royalty fee on a sliding scale related to the gross receipts of a cable system for providing the basic retransmission service, and rejected a statutory scheme that would distinguish between "local" and "distant" signals. The Committee determined, however, that there was no evidence that the retransmission of "local" broadcast signals by a cable operator threatens the existing market for copyright program owners. Similarly, the retransmission of network programming, including network programming which is broadcast in "distant" markets, does not injure the copyright owner. The copyright owner contracts with the network on the basis of his programming reaching all markets served by the network and is compensated accordingly.

By contrast, their retransmission of distant non-network programing by cable systems causes damage to the copyright owner by distributing the program in an area beyond which it has been licensed. Such retransmission adversely affects the ability of the copyright owner to exploit the work in the distant market. It is also of direct benefit to the cable system by enhancing its ability to attract subscribers and increase revenues. For these reasons, the Committee has concluded that the copyright liability of cable television systems under the compulsory license should be

limited to the retransmission of distant non-network programming.

* * *

Compulsory license

Section 111 (c) establishes the compulsory license for cable systems generally. It provides that, subject to the provisions of clauses (2), (3) and (4), the secondary transmission to the public by a cable system of a primary transmission made by a broadcast station licensed by the FCC or by an appropriate governmental authority of Canada or Mexico is subject to compulsory licensing upon compliance with the provisions of subsection (d) where the carriage of the signals comprising the secondary transmisison is permissible under the rules and regulations of the FCC. The compulsory license applies, therefore, to the carriage of over-the-air broadcast signals and is inapplicable to the secondary transmission of any nonbroadcast primary transmission such as a program originated by a cable system or a cable network. The latter would be subject to full copyright liability under other sections of the legislation.

* * *

Commercial substitution

Section 111 (c) (3) provides that a cable system is fully subject to the remedies provided in this legislation for copyright infringement if the cable system willfully alters, through changes, deletions, or additions, the content of a particular program or any commercial advertising or station announcements transmitted by the primary transmitter during, or immediately before or after, the transmission of the program. In the Committee's view, any willful deletion, substitution, or insertion of commercial advertisements of

any nature by a cable system, or changes in the program content of the primary transmission, significantly alters the basic nature of the cable retransmission, service and makes its function similar to that of a broadcaster. Further, the placement of substitute advertising in a program by a cable system on a "local" signal harms the advertiser and, in turn, the copyright owner, whose compensation for the work is directly related to the size of the audience that the advertiser's message is calculated to reach. On a "distant" signal, the placement of substitute advertising harms the local broadcaster in the distant market because the cable system is then competing for local advertising dollars without having comparable program costs. The Committee has therefore attempted broadly to proscribe the availability of the compulsory license if a cable system substitutes commercial messages. Included in the prohibition are commercial messages and station announcements not only during, but also immediately before or after the program, so as to insure a continuous ban on commercial substitution from one program to another. In one situation, however, the Committee has permitted such substitution when the commercials are inserted by those engaged in television commercial advertising market research. This exception is limited to those situations where the research company has obtained the consent of the advertiser who purchased the original commercial advertisement, the television station whose signal is retransmitted, and the cable system, and provided further that no income is derived from the sale of such commercial time.

* * *

EXCERPT FROM SUPPLEMENTARY REPORT OF THE REGISTRAR OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW: 1965 REVISION BILL (Comm. Print, pt. 6 (1965) at 24-25.)

* * *

Clause (B) of section 106 (b) (3) is intended to make clear that, in addition to performances and exhibitions occurring in a public place as defined in clause (A), it is also a public performance or exhibition "to transmit or otherwise communicate a performance or exhibition of the work to the public by means of any device or process." Section 101 provides:

> "To 'transmit' a performance or exhibition is to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent."

Clause (B) and the definition of "transmit" replace language in earlier drafts employing phrases such as "broadcast," "retransmitted," "over wires or otherwise," "rebroadcasting," "diffusing," and "rediffusing." Not only was the use of many different terms confusing, but the meanings ascribed to them did not always correspond with their usage in the communications industry in this country. In particular, we were urged not to use the word "broadcast" in a sense different from its meaning in the Federal Communications Act.

We have therefore adopted the phrase "transmit or otherwise communicate * * * to the public" to cover every method by which the images or sounds comprising a performance or exhibition can be picked up and conveyed to the

public. This concept would include, among other things: direct amplification (as over a loud speaker system); transmission over wires or other connections; wireless transmission by the originating transmitter and by any other transmitter who picks up his signals and passes them on; and further transmission, over wires, of a wireless transmission. Likewise, although probably also covered under clause (A), it would include performances in public places resulting from the playing of records on jukeboxes and other sound reproducing equipment and from the reception of wired or wireless transmissions.

In effect, the definition is intended to cover every transmission, retransmission, or other communication of a performance which reaches "the public." The 1964 bill contained language exempting transmissions by someone acting "as a common carrier," the thought being that a corporation merely leasing wires or equipment for the intermediate transmission of signals to other transmitters, rather than to the public, should not be subjected to liability to the copyright owner. It was pointed out that the concept of "common carrier" might be extended unjustifiably to some commercial transmitters to the public, and we have therefore dropped this exception as ill-advised. We are convinced that purely intermediate transmissions should be exempt, but that an express exemption is not necessary to exclude them.

As already noted, section 109 provides a number of limitations on the rights of copyright owners, including exemptions for certain types of broadcasts and transmissions. Involved in these exemptions are some extremely controversial issues, especially those involving educational broadcasting and community antenna systems. These and

related questions will be discussed in Part E of this chapter.

* * *

PLAINTIFF'S MEMORANDUM IN SUPPORT OF SUMMARY JUDGMENT

* * *

[Pl. Memo., p. 12]

b. *Turner is an Active Participant in the National Performance of Works Shown on WTBS.*

As a "broadcaster", Turner originates the performance of the works shown on WTBS, but unlike the other so-called "Superstations", WGN and WOR, the owner of WTBS also plays an active role in the retransmission of these works by satellite.

Turner from the beginning set out to establish WTBS as a national cable network. To accomplish this end, Turner researched the market for a nationwide cable station, (Statement of Facts IV, ¶¶ 3-4) and acquired preliminary commitments from cable systems interested in receiving WTBS. *(Id.,* IV, ¶ 5.) Turner selected the satellite to which most cable system operators would turn their antennae (*Id.,* IV, ¶ 3), entered into negotiations on his own behalf first with Western Union for transponder space on its proposed satellite, *(Id.)* and then later with RCA because the earlier established cable service, Home Box Office, was carried on RCA. (*Id.,* IV, ¶ 5.) Turner then created a wholly-owned subsidiary which he called Southern Satellite Systems, Inc. to act as the vehicle where-

by the WTBS signal would be transmitted by satellite to the cable receivers. *Id.* When informed that his simultaneous control and retransmission of the WTBS signal might constitute copyright infringement, Turner "sold" Southern for the nominal sum of One Dollar ($1.00) to his business associate, Edward Taylor, who had advised him in his creation of Southern. *(Id.*, IV, ¶ 6.)

[Pl. Memo., p. 13]

Turner established Southern and collaborated closely with it because Southern was an essential component in the plan to create WTBS as a "superstation" serving a national cable network. Turner markets WTBS to advertisers on the basis of the number of cable households it reaches nationally. (Hubbard Exh. 50.) Turner has proclaimed WTBS' national status as a cable network in its planning and in all its advertising to cable customers. *See, e.g., "Progress Report on WTCG's Satellite Cable Network,"* (Hubbard Exh. 15); reference to "a report on the status of Ch. 17's cable Television Network." (Hubbard Exh. 13.) When it suits him, Turner acquires program rights for WTBS on the basis of its national cablecasting. *Cox Broadcasting Corp. v. National Collegiate Athletic Assoc.*, 250 Ga. 391, 297 S.E.2d 733 (1982). When it doesn't suit him, Turner retreats behind the facade of being just a local broadcaster to the Atlanta area, as when program owners object to having their programs cablecasted to a national audience without their permission. (Statement of Facts IV, ¶ 23; *see also* Hubbard Exh. 41, *ABC Sports, et al. v. Atlanta National League Baseball Club, Inc., Superstation, Inc. & Turner Broadcasting, Inc.*, (S.D.N.Y.

1982), File No. 82 Civ. 6104, Transcript of Order, October 4, 1982.)

Despite the "sale" of Southern to Taylor, cooperation between Turner and Southern has sustained the cable network. Turner, for example, continued its financial support activities for Southern for a time after the sale. (Statement of Facts IV, ¶ 13.) Turner and Southern have exchanged program information and cooperated in marketing. *(Id.,* IV, ¶¶ 15 and 32.) Turner and Southern have set up special arrangements for use of the

[Pl. Memo., p. 14]

microwave signal when Atlanta Braves games are being shown. (Statement of Facts VI, ¶ 9.) It is clear that the relationship between Turner and Southern is a closely integrated business enterprise.

Beyond being functionally integrated, Turner and Southern are technologically integrated, with a direct-feed microwave link between them. Thus, again unlike WGN and WOR, the signal which Southern, the satellite carrier, transmits is not the signal broadcast over the air by the broadcast station. Instead, Southern picks up from WTBS a new signal, specially created by Turner for satellite transmission, which consists of national advertisements and programs licensed to the local broadcast station which Turner "borrows" for cable purposes.*

*As discussed *infra*, Section I (D), Turner's licenses for the Works only authorize their use for broadcasts over-the-air to the Atlanta area (with limited exceptions not relevant herein). Therefore, their use in the satellite transmission is unlicensed.

Thus Turner is not a passive victim of Southern's retransmission of its signal, but an active participant in the enterprise:

> We reject the defendants' characterization of WTBS as simply a local over the air station. The evidence is overwhelming that Turner Broadcasting Systems has actively and purposefully developed WTBS into what is in essence a national cable network which reaches over 20 million viewers.

(Hubbard Exh. 41, *ABC Sports, supra,* at 19. Similarly, the court in *Board of Regents of The University of Oklahoma v. National Collegiate Athletic Assoc.,* 707 F.2d 1147, 1150 (10th Cir. 1983),

[Pl. Memo., p. 15]

cert. granted, 78 L.Ed.2d 253 (1983), referred to Turner's activities as "cablecasting."

As an active and willful participant in the "WTBS Satellite Cable Network" Turner must bear its share of responsibility for the consequences of the network's public performance of copyrighted works.

* * *

[Pl. Memo., p. 17]

E. *Turner and Southern are Each Liable for Copyright Infringement.*

1. *Turner and Southern are Each Contributorily and Jointly and Severally Liable.*

Turner and Southern have a unique relationship in the satellite retransmission business. In no other case has the

broadcaster taken as active a role in the satellite retransmission of the signal, nor has the retransmitter participated to such an extent in the choice of the signal it would carry and what its contents would be. It is evident from the interdependence of Turner and Southern that each has participated, directly or indirectly, in the copyright infringement resulting from the unauthorized retransmission by Southern of copyrighted works.

In situations where more than one party has participated in copyright infringement, the common law has devised labels to classify the infringers; these include "direct infringer,"[11]

[Pl. Memo., p. 18]

"vicarious infringer,"[12] and "contributory infringer."[13]

The United States Supreme Court has stated that a cause

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[11]A direct infringer is a party which publicly performs a copyrighted work without authorization. *See, e.g., Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d at 1162 (court uses phrase "primary infringers" rather than "direct infringers"); *Sony Corp. of America v. Universal City Studios, Inc.*, 78 L.Ed. 2d 574 (1984). *See also Midway Manufacturing Co. v. Artic Int'l*, 704 F.2d 1009 (7th Cir. 1983) *cert. den.* 104 S.Ct. 90 (1983) (users of mechanism which speeds up video games are direct infringers).

[12]A person who has promoted or induced the infringing acts of a performer is jointly and severally liable as a 'vicarious' infringer even though he has no actual knowledge that a copyright is being infringed by a performer.
Warner Brothers, Inc. v. O'Keefe, 468 F.Supp. at 20, quoting *KECA Music, Inc. v. Dingus McGee's Co.*, 432 F.Supp. at 74-75; *F.E.L. Publications v. National Conference of Catholic Bishops*, 466 F.Supp. 1034, 1040 (N.D. Ill. 1978); *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d at 1162; *Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F.2d 304, 308-309 (2nd Cir. 1963).

[13]Contributory infringers are a special class of vicarious infringers who are aware of the infringing nature of the performance. As the rule has been stated by the courts:

> One who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer.

Original Appalachian Artworks v. Cradle Creations, 1982 Copyright Law Decisions (CCH) ¶ 25,387 (N.D. Ga. Jan. 27, 1982); *Universal City Studios, Inc. v. American Invsco Management, Inc.*, 1981 Copyright Law Rep. (CCH) ¶ 25,271 (N.D. Ill. May 26, 1981).

of action for vicarious infringement is implied in the Copyright Act. *Sony Corp. of America v. Universal City Studios, Inc.*, 78 L.Ed.2d at 588.

In *Sony Corp.* however, the Court stated that the "lines between direct infringement, contributory infringement and vicarious liability are not clearly drawn." *Id.*, 78 L.Ed. 2d at 588, n. 17. In fact, in *Sony Corp.*, the Court found it unnecessary to distinguish between the use of these labels when evaluating precedents in the copyright area.

[Pl. Memo., p. 19]

> "We also observe, however, that reasoned analysis of respondents' contributory infringement claim necessarily entails consideration of argument and case law which may also be forwarded under other labels."

Id. Sony Corp. thus indicates that where copyright infringement has occurred, as in this case, it is not necessary to attach specific labels to each participant.

This conclusion is appropriate in view of the fact that all parties participating in copyright infringement, whether directly or vicariously are jointly and severally liable for their activity. *See, e.g., Ted Browne Music Company v. Fowler*, 290 F. 751, 754 (2nd Cir. 1923); *Harms, Inc. v. Sansom House Enterprises, Inc.*, 162 F.Supp. at 135; *Screen Gems-Columbia Music v. Mark-Fi Records, Inc.*, 256 F.Supp. at 403; *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d at 1162. Turner and Southern's activities are so closely tied that they are jointly responsible for copyright infringement whatever label is used.

* * *

PLAINTIFF'S REPLY MEMORANDUM

* * *

[Pl. Reply Mem., p. 23]

B. *Southern and Turner Would be Liable for a Public Performance Even if Southern's Transmission were Not a Public Performance.*

Based on the foregoing and on Plaintiff's Memorandum at 8-12 and 15-16, it is clear that Southern's transmission does come specifically within the definition of "public performance" in the Copyright Act. Even if the transmission did not, however, Southern and Turner would still be liable for copyright infringement. Turner and Southern are acting in concert with the cable companies. Defendants do not dispute, nor can they, that the cable companies are publicly performing the Works. Turner and Southern are therefore liable for the public performance of the Works under traditional concepts of vicarious liability. *See* Pl. Memo. at 17-19.

Because the cable systems, Southern and Turner are all integrally involved in infringing public performances of Hubbard's works all are liable for copyright infringement. As explained *supra,* Section I, Plaintiff's choice not to join the cable companies is valid under the Copyright Act, and does not in any way refute plaintiff's claim that Southern and Turner are infringers.

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[Pl. Reply Memo., p. 45]

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V.

NEITHER POLICY NOR PRACTICAL CONSIDERATIONS INHIBIT RECOGNITION OF FULL COPYRIGHT LIABILITY FOR THE ACTIONS OF THE TURNER/SOUTHERN NETWORK.

A. *Copyright Act Imposes Liability on Defendants.*

Defendants candidly admit that Turner has openly cooperated with Southern in an effort to establish Southern as a carrier and to gain a nationwide audience for WTBS in a manner to maximize Turner's advertising revenues. (Def. Memo. p. 4) Having no authority from the copyright owners to perform their works to a nationwide audience, however, Turner is guilty of straightforward copyright infringement under § 501 (a) and § 106 (4). Defendants have not been able to cite anything in § 111, which deals solely with secondary transmitters, or in any other section of the copyright law which relieves Turner of liability for its open acts of infringement.[29] While the bulk of defendants' arguments

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[29]Defendants state that Congress and the FCC have imposed no restrictions on superstations which have no control over their retransmission by cable systems. (Def. Memo. p. 6) If in fact Turner had not participated in or profited by the cable carriage of its transmission, it would not be liable for infringement, because there can hardly be liability when a cable system converts to its own use a program that a broadcaster is transmitting locally pursuant to license. But Turner actively furthered cable carriage of its signal and profited from the national audience, and thus Congress has imposed liability in § 501 and 106(4).

[Pl. Reply Memo., p. 46]

have to do with Southern's liability, the defense of Turner, the primary transmitter and original moving force in the whole enterprise, seems to be based on two points. (a) that "public policy" as embodied in the FCC and in the compulsory licensing system somehow favors Turner's activities; and (b) that because some program suppliers are now receiving higher license fees from Turner, that everyone is happy with the arrangement and there is no need for the law to apply nasty titles like "copyright infringement" to the enterprise.

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